



**FINANCIAL STATEMENTS AND SCHEDULE  
OF EXPENDITURES OF FEDERAL AWARDS**

Higher Education Loan Authority of the State of Missouri  
As of and for the Years Ended June 30, 2023 and 2022  
With Reports of Independent Auditors

# Higher Education Loan Authority of the State of Missouri

## Financial Statements

As of and for the Years Ended June 30, 2023 and 2022

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## **Report of Independent Auditors**

Members of  
The Higher Education Loan Authority of the State of Missouri

### **Report on the Audit of the Financial Statements**

#### **Opinions**

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of the Higher Education Loan Authority of the State of Missouri (“the Company”), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Company’s basic financial statements as listed in the table of contents (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the Company at June 30, 2023 and 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 – 19 and Schedule of Changes in Net Pension Liability (Asset) and Related Ratios; Schedule of Contributions; and Schedule of Investment Returns on pages 89 – 91 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of

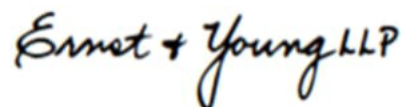
inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Company's financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the accompanying schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2023 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.



September 19, 2023

# Higher Education Loan Authority of the State of Missouri

## Management's Discussion and Analysis (Unaudited)

The Management's Discussion and Analysis of the financial performance is required supplementary information for the Higher Education Loan Authority of the State of Missouri including its blended component units, the Missouri Scholarship and Loan Foundation (the Foundation), and Knowledge Finance, collectively, (the Company). This discussion and analysis provides an analytical overview of the Company's condensed financial statements and should be read in conjunction with the financial statements that follow.

### Financial Highlights

During fiscal year 2023, the Company experienced significant growth in its federal loan servicing and non-servicing contracts.

- As of June 30, 2023, the Company is servicing 7.8 million federal accounts compared to 5.2 million at June 30, 2022.
- Federal asset principal serviced increased \$196.2 billion in fiscal year 2023 to \$344.4 billion at June 30, 2023 compared to \$148.2 billion at June 30, 2022.
- Servicing fees increased \$171.7 million (160%) in fiscal year 2023 to \$279.2 million from \$107.5 million in fiscal year 2022. The majority of the increase was net direct loan servicing fee increase of \$90.2 million from \$88.9 million in fiscal year 2022 to \$179.1 million in fiscal year 2023. In addition, as of July 2022, the Company became the student loan servicer for Public Service Loan Forgiveness (PSLF) which resulted in \$68.7 million of servicing fees in the first fiscal year 2023. The non-servicing Business Process Operations (BPO) contract fees increased \$12.2 million in fiscal year 2023 from \$5.2 million to \$17.4 million.
- As a result of the increase in volume, the Company's salaries and benefits increased \$114.0 million (180%). The Company's employees and contracted employees increased 1,766 from 1,365 at June 30, 2022 to 3,131 at June 30, 2023.
- Computer services increased \$31.4 million related to the new loans being added to the servicing system.

# Higher Education Loan Authority of the State of Missouri

## Management's Discussion and Analysis (continued) (Unaudited)

### Financial Highlights (continued)

During fiscal year 2022, the Company also experienced significant growth in its federal loan servicing and non-servicing contracts.

- As of June 30, 2022, the Company is servicing 5.2 million federal accounts compared to 2.7 million at June 30, 2021.
- Federal asset principal serviced increased \$89.1 billion in fiscal year 2022 to \$148.2 billion at June 30, 2022 compared to \$59.1 billion at June 30, 2021.
- Servicing fees increased \$37.6 million (54%) in fiscal year 2022 to \$107.5 million from \$69.9 million in fiscal year 2021. The majority of the increase was net direct loan servicing fee increase of \$32.8 million from \$56.1 million in fiscal year 2021 to \$88.9 million in fiscal year 2022. The non-servicing Business Process Operations (BPO) contract fees increased \$4.7 million in fiscal year 2022 from \$0.5 million to \$5.2 million.
- As a result of the increase in volume, the Company's salaries and benefits increased \$31.0 million (96%). The Company's employees and contracted employees increased over 1,000 from 337 at June 30, 2021 to 1,365 at June 30, 2022.
- Computer services increased \$10.1 million related to the new loans being added to the servicing system.

### The Company

The Company is recognized as one of the largest nonprofit student loan secondary markets in America by statistics gathered and maintained by the U.S. Department of Education (the Department). The Company is a leading holder and servicer of student loans with \$363.3 billion in student loan assets serviced as of June 30, 2023.

The Company was created by the General Assembly of the State of Missouri through passage of House Bill (HB) 326, signed into law on June 15, 1981, in order to ensure that all eligible post-secondary education students have access to guaranteed student loans. The legislation was amended, effective August 28, 1994, effective August 28, 2003, effective August 28, 2007 and again effective May 2, 2008, to provide the Company with generally expanded powers to finance, originate, acquire, and service student loans, including, but not limited to, those guaranteed or insured pursuant to the Higher Education Act.

## Higher Education Loan Authority of the State of Missouri

### Management's Discussion and Analysis (continued) (Unaudited)

#### **The Company (continued)**

The Company is governed by a seven-member Board, five of whom are appointed by the Governor of the State, subject to the advice and consent of the State Senate, and two others who are designated by statute – the State Commissioner of Higher Education and a member of the State Coordinating Board for Higher Education. Scott D. Giles, appointed by the Board during fiscal year 2022, serves as Executive Director and Chief Executive Officer of the Company.

The passage of Senate Bill (SB) 389, effective August 28, 2007, further amended the Company's purpose in order to support the efforts of public colleges and universities to create and fund capital projects and also to support the Missouri Technology Corporation's ability to work with colleges and universities in identifying opportunities for commercializing technologies, transferring technologies, and developing, recruiting, and retaining entities engaged in innovative technologies. In addition, powers of the Company were amended to include fund transfers to the Lewis and Clark Discovery Fund and authorization for the Company to participate in any type of financial aid program that provides grants and scholarships to students.

The Company owns and services student loans made pursuant to the Higher Education Act under FFELP, including:

- (a) Subsidized Stafford loans – loans to students meeting certain financial needs tests for which the federal government makes interest payments available to reduce student interest cost during periods of enrollment
- (b) Unsubsidized Stafford loans – loans to students made without regard to financial need for which the federal government does not make such interest payments
- (c) PLUS loans – loans to parents of dependent undergraduate and graduate students, or to graduate or professional students
- (d) Consolidation loans – loans available to borrowers with certain existing federal educational loans to consolidate repayment of such loans

The Consolidation Appropriation Act of 2012 was signed into law on December 23, 2011, which, in part, allowed FFELP loan holders to elect to substitute one-month LIBOR for the 90-day AA Financial Commercial Paper (90-day CP) rate for the special allowance program (SAP) index. Starting with the quarter ended June 30, 2013, all Company-owned FFELP loans disbursed after January 1, 2000 are indexed to one-month LIBOR. In July 2023, the Company successfully transitioned from one-month LIBOR to one-month CME Term SOFR plus a tenor spread adjustment of 0.11448%.

## Higher Education Loan Authority of the State of Missouri

### Management's Discussion and Analysis (continued) (Unaudited)

#### **The Company (continued)**

The Company was the lender and servicer for supplemental loans, which were also known as private or alternative loans. These supplemental loans were previously made available predominantly to students in the Midwest who reached the maximum available funding under FFELP. There were several types of loans under the supplemental programs, including those for borrowers attending eligible undergraduate, technical, graduate, law, medical, and pharmacy schools. Supplemental loans are not guaranteed by the federal government. The Company suspended its supplemental loan programs during fiscal year 2008 due in part to credit market disruptions, which made financing these loans more difficult.

On June 11, 2010, the Company's Board approved the creation of the Missouri Scholarship Foundation, appointed the initial board of directors. The Missouri Scholarship Foundation was incorporated as a Missouri not-for-profit corporation for the primary purposes of receiving gifts and grants, raising funds, accepting transfers and contributions, and using the resulting funds for (1) administering grants, scholarships, and related programs on behalf of the Company and other entities and (2) assisting students who are residents of the State of Missouri and students who attend post-secondary institutions located or based in the State of Missouri to gain access to and finance their post-secondary education.

In September 2013, the Missouri Scholarship Foundation's Board approved the establishment of the Missouri Family Education Loan Program (MOFELP). MOFELP is an interest-free, private student loan program designed to provide borrowing options for Missouri students who have financial need, but may not meet the traditional credit requirements for private loans. In conjunction with the roll-out of MOFELP, the Missouri Scholarship Foundation's Board approved changing the name of the organization to the Missouri Scholarship and Loan Foundation (the Foundation) to better reflect its purpose. The Foundation's MOFELP loans are originated and serviced by the Company.

On September 27, 2019, the Company's Board approved the creation of Knowledge Finance and appointed the initial board of directors. On October 2, 2019, Knowledge Finance was incorporated as a Missouri not-for-profit corporation for the primary purpose of supporting higher education and charitable endeavors. These purposes include the servicing of student loans, as well as, receiving gifts and grants, raising funds, accepting transfers and contributions, and using the related funds in the administration of grants, scholarships, and related programs on behalf of the Company.

## Higher Education Loan Authority of the State of Missouri

### Management's Discussion and Analysis (continued) (Unaudited)

#### **The Company (continued)**

Under the HCERA, the Department is required to contract with each eligible and qualified not-for-profit (NFP) servicer to service loans. The Company was awarded an Authorization to Operate (ATO) on September 22, 2011, and a servicing contract to become an NFP servicer to service federal assets, including Direct Loans, on September 27, 2011. On September 19, 2014, the Company received authorization from the Department to service Common Origination Disbursements (COD). The Company is servicing approximately 7.8 million federal asset accounts, representing approximately \$344.4 billion in student loans, as of June 30, 2023.

In June 2020, the Company was awarded a Business Process Operations (BPO) contract for Non-Servicing work. The Company subsequently secured an Initial Implementation Task Order in November 2020, Authorized To Operate (ATO) in July 2021 and Train the Trainer in September 2021. In November 2021, a Ramp-Up Task Order was issued and the Company went live on November 5, 2021, one of only four BPOs to go live. From November 5, 2021 through March 31, 2022, the legacy contact center and back-office processing for non-servicing work was migrated to the BPOs, mirroring the various legacy center hours of operation, holiday schedule and peak seasons. During fiscal year 2023, the Company earned \$17.4 million in BPO contracted revenue compared to \$5.2 million in fiscal year 2022.

As of July 2022, the Company became the student loan servicer for PSLF. Borrowers pursuing PSLF will be transferred to MOHELA upon the approval of their submitted PSLF form. During fiscal year 2023, the Company earned \$68.7 million of PSLF servicing fees.

On April 24, 2023, the Company was awarded a 10-year Unified Servicing and Data Solutions (USDS) contract and is expected to replace the existing Federal Loan Servicing contract by Spring of 2024. In addition, the Department issued a contract extension for the existing servicing contract through December 2024.

In addition to the federal loan servicing contracts, at June 30, 2023, the Company serviced \$874 million of its own legacy FFELP, supplemental and credit deteriorated student loans. These portfolios helped the Company transition to a federal asset and private loan servicing business model.

# Higher Education Loan Authority of the State of Missouri

## Management's Discussion and Analysis (continued) (Unaudited)

### The Company (continued)

The Company continues to focus on the development of creative solutions to support the Company's mission. In the past, the Company has offered various rate reduction programs to borrowers who establish payments through automatic deduction, as well as various loan forgiveness programs. Borrowers who establish payments through automatic deduction can receive a 0.25% interest rate reduction. The Company contributed funds to multiple organizations throughout the previous fiscal years. Contributions made to Access Missouri Financial Assistance Program, Advanced Placement Incentive Grants, A+ Scholarship Program, Bright Flight Scholarship fund, and the Missouri Scholarship and Loan Foundation, are detailed in the table below. The Company reserves the right to modify these programs as needed. In addition, since its inception, the Company has granted over \$48 million in loan forgiveness for a variety of student borrowers, including teachers, Pell Grant recipients, and those in military service.

Company contributions to organizations (*dollars in millions*):

	A+ Scholarship Program	Access Missouri Financial Assistance Program	Advanced Placement Incentive Grants	Bright Flight Scholarship Fund	Missouri Scholarship and Loan Foundation
FY 2023	\$ 2.0	\$ 2.0	\$ 0.04	\$ 2.0	\$ -
FY 2022	2.0	2.0	-	2.0	19.0
FY 2021	2.0	-	-	2.0	117.9
FY 2020	2.0	1.3	-	1.5	11.5
FY 2019	-	1.0	-	0.5	15.0
FY 2018	-	-	-	1.8	12.6
FY 2017	-	-	-	1.6	10.3
FY 2016	-	-	-	-	4.8
FY 2015	-	-	-	1.0	11.1
FY 2014	-	-	-	-	5.7
FY 2013	-	5.0	-	-	-
FY 2012	-	30.0	1.0	-	-
FY 2011	-	30.0	-	-	-

### Financial Analysis

As a result of adopting GASB Statement No. 80 on July 1, 2016, which requires blending of the Company's component units, the Foundation and Knowledge Finance, this report includes financial statements blending the financial activity of the Foundation and Knowledge Finance.

Included in this report are three business-type financial statements: the statements of net position; the statements of revenues, expenses, and changes in net position; and the statements of cash flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles. The statements of net position presents the financial position of the

## Higher Education Loan Authority of the State of Missouri

### Management's Discussion and Analysis (continued)

*(Unaudited)*

#### **Financial Analysis (continued)**

Company at the end of the fiscal year and include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Company. The statements of revenues, expenses, and changes in net position presents the Company's changes in financial position. The statements of cash flows provides a view of the sources and uses of the Company's cash resources.

The Company is also required to present fiduciary activity financial statements for its legacy pension plan. The pension trust fund is used to report resources held in trust for retirees. Fiduciary funds are not available to support the Company's own programs.

# Higher Education Loan Authority of the State of Missouri

## Management's Discussion and Analysis (continued) (Unaudited)

Condensed financial information and a brief synopsis of the variances follow:

### Condensed Statements of Net Position

(In thousands)

	2023	2022	2021
Capital assets	\$ 20,167	\$ 19,070	\$ 19,235
Other than capital assets	1,240,549	1,447,633	1,586,459
Total assets	<u>1,260,716</u>	<u>1,466,703</u>	<u>1,605,694</u>
Deferred outflows of resources	<u>19,094</u>	<u>24,837</u>	<u>7,056</u>
Current liabilities	150,531	135,056	298,815
Long-term liabilities	702,498	963,532	886,569
Total liabilities	<u>853,029</u>	<u>1,098,588</u>	<u>1,185,384</u>
Deferred inflows of resources	<u>12,076</u>	<u>9,555</u>	<u>12,177</u>
Net investment in capital assets	11,021	8,619	7,927
Restricted for debt service	75,383	65,260	89,174
Unrestricted	328,301	309,518	318,088
Total net position	<u>\$ 414,705</u>	<u>\$ 383,397</u>	<u>\$ 415,189</u>

### Condensed Statements of Revenues, Expenses, and Changes in Net Position

(In thousands)

	2023	2022	2021
Interest on student loans and interest subsidy	\$ 50,885	\$ 56,869	\$ 66,006
Special allowance	11,721	(19,339)	(21,517)
Servicing income and other	295,968	77,125	87,161
Total operating revenues	<u>358,574</u>	<u>114,655</u>	<u>131,650</u>
Bond expenses	35,980	15,799	21,581
Student loan expenses	6,487	5,548	5,615
General and administrative expenses	278,759	119,100	72,057
Total operating expenses	<u>321,226</u>	<u>140,447</u>	<u>99,253</u>
Operating income (loss)	<u>37,348</u>	<u>(25,792)</u>	<u>32,397</u>
Non-operating expenses	(6,040)	(6,000)	(7,798)
Change in net position	<u>\$ 31,308</u>	<u>\$ (31,792)</u>	<u>\$ 24,599</u>

## Higher Education Loan Authority of the State of Missouri

### Management's Discussion and Analysis (continued) (Unaudited)

#### **Financial Position**

Total assets decreased \$206.0 million (14%) and total deferred outflows of resources decreased \$5.7 million (23%), while liabilities decreased \$245.6 million (22%) and deferred inflows of resources increased \$2.5 million (26%), resulting in an increase to the Company's net position of \$31.3 million (8%) in fiscal year 2023. This increase compares to a decrease in net position of \$31.8 million in fiscal year 2022. The change in net position in fiscal year 2023 is primarily due to a \$243.9 million (213%) increase in total operating revenues, an increase of \$20.2 million (128%) in total bond-related expenses, and a \$159.7 million (134%) increase in total general and administrative expenses, primarily related to salaries and computer services due to the Company's growth.

Net investment in capital assets increased \$2.4 million (28%) in fiscal year 2023 to \$11.0 million from \$8.6 million in fiscal year 2022. Restricted net position increased by \$10.1 million (16%) to \$75.4 million in fiscal year 2023 from \$65.3 million in fiscal year 2022. Unrestricted net position increased by \$18.8 million (6%) to \$328.3 million in fiscal year 2023 from \$309.5 million in fiscal year 2022.

For the years ended June 30, 2023 and 2022, the Company recorded deferred outflows of resources related to pension of \$19.1 million and \$24.8 million, respectively, and deferred inflows of resources related to pension and leases in the amount of \$12.1 million and \$9.6 million, respectively. These are a result of a net difference between expected and actual experience, projected and actual earnings on pension plan investments, and changes in assumptions.

#### *Capital Activities*

During fiscal year 2023, the Company purchased a new HVAC system at a cost of \$1.2 million and new servers and switches were added at a cost of \$0.7 million. The Company also has \$1.8 million in construction in progress, of which \$1.3 million is for Knowledge Share Asset software.

During fiscal year 2022, the Company placed CAMP software at a cost of \$0.8 million into service. New servers were added at a cost of \$0.6 million.

Please refer to Note 5, Capital Assets, for more information.

# Higher Education Loan Authority of the State of Missouri

## Management's Discussion and Analysis (continued) (Unaudited)

### Financial position (continued)

#### *Other than Capital Assets*

The condensed statement of net position, other than capital assets includes the following (in thousands):

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 130,536	\$ 151,939	\$ 143,889
Investments	161,611	150,702	180,209
Student loans receivable, net	821,654	1,053,476	1,164,467
Accrued interest receivable	72,325	74,644	71,486
Servicing fees receivable	41,083	13,803	11,134
Miscellaneous receivables and prepaid expenses	5,076	3,069	2,566
Net pension asset	8,264	-	12,708
Total other than capital assets	<u>\$ 1,240,549</u>	<u>\$ 1,447,633</u>	<u>\$ 1,586,459</u>

Cash and cash equivalents decreased \$21.4 million (14%) to \$130.5 million at June 30, 2023 from \$151.9 million at June 30, 2022. This compares to an increase of \$8.1 million (6%) from \$143.9 million at June 30, 2021. Please refer to the statement of cash flows included in the financial statements for detail on the Company's cash activities.

Net student loans receivable decreased \$231.8 million (22%) to \$821.7 million at June 30, 2023 from \$1.1 billion at June 30, 2022 due to loan principal reductions of \$238.3 million partially offset by purchase activity of \$6.5 million. This compares to a decrease in net student loans receivable of \$111.0 million (10%) from \$1.2 billion at June 30, 2021. This decline relates to loan principal reductions of \$129.2 million partially offset by purchase activity of \$18.3 million.

Accrued interest receivable decreased \$2.3 million (3%) to \$72.3 million at June 30, 2023 from \$74.6 million at June 30, 2022 due to increased run-off of the portfolio due to normal paydowns, claims, and consolidations to the Department. This compares to an increase of \$3.2 million (4%) from \$71.5 million at June 30, 2021, due to increases in interest rates.

Servicing fees receivable increased \$27.3 million (198%) to \$41.2 million at June 30, 2023 from \$13.8 million at June 30, 2022 primarily due to more accounts being serviced and tasks related to the PSLF program. This compares to an increase in servicing fees receivable of \$2.7 million (24%) at June 30, 2022 from \$11.1 million at June 30, 2021 primarily due to an increase in servicing fee receivables related to more accounts being serviced.

# Higher Education Loan Authority of the State of Missouri

## Management's Discussion and Analysis (continued) (Unaudited)

### Financial position (continued)

At June 30, 2023, there was a net pension asset of \$8.3 million compared to no net pension asset at June 30, 2022, and a net pension asset of \$12.7 million at June 30, 2021. Please refer to Note 8 for more information on the Company's net pension asset.

### *Liabilities*

Current liabilities increased \$15.4 million (11%) to \$150.5 million at June 30, 2023 from \$135.1 million at June 30, 2022, due to a \$29.3 million increase in other liabilities. The increase was offset by a decrease of current bonds payable of \$13.3 million. Long-term liabilities decreased by \$261.0 million (27%) to \$702.5 million at June 30, 2023 as the Company repaid bonds with available cash as required by the respective bond trusts. The Company has no net pension liability as of June 30, 2023 compared to an \$11.1 million net pension liability at June 30, 2022. Please refer to Note 8 for more information on the Company's net pension liability. The Line of Credit expired on May 16, 2023. See Note 6 for more detail on the Line of Credit.

For fiscal year 2022, current liabilities decreased \$163.8 million (55%) to \$135.1 million at June 30, 2022 from \$298.8 million at June 30, 2021, due to a \$145.8 million decrease in line of credit payable. The decrease was offset by an increase of current bonds payable of \$15.3 million and a decrease of lender payables of \$40.4 million. Long-term liabilities increased by \$77.0 million (9%) to \$963.5 million at June 30, 2022 as the Company issued one new bond during fiscal year 2022. The Company has an \$11.1 million net pension liability as of June 30, 2022 compared to no net pension liability at June 30, 2021. Please refer to Note 8 for more information on the Company's net pension liability. A fourth amendment of the agreement was made on May 18, 2022 to set the available commitment of Line of Credit to \$100 million.

### Operating Results

### *Operating Revenues*

Total operating revenues increased \$243.9 million to \$358.6 million in fiscal year 2023 from \$114.7 million in fiscal year 2022. The primary reason for the increase was an increase in net servicing fee revenue of \$171.7 million due to the Company's growth in the number of borrowers serviced, including PSLF. There was also an increase of \$44.3 million in realized and unrealized gain on investments and an increase in investment income of \$2.3 million. In addition, due to rising interest rates, the amount of special allowance paid decreased resulting in an increase of \$31.1 million in special allowance revenue. The interest rate that impacts the special allowance calculation is the one-month LIBOR rate. The average one-month LIBOR rate increased 3.66% to 4.01% in fiscal year 2023 from 0.35% in fiscal year 2022. The increase in rates results in a decreased amount of special allowance that is paid and in fiscal year 2023 there was a special

# Higher Education Loan Authority of the State of Missouri

## Management's Discussion and Analysis (continued) (Unaudited)

### Operating Results (continued)

allowance refund. Offsetting the increase in revenue was a decrease in interest revenue on student loans of \$6.0 million. Interest on student loans declined primarily due to a \$231.8 million reduction in student loans outstanding.

Total operating revenues decreased \$17.0 million (13%) to \$114.7 million in fiscal year 2022 from \$131.7 million in fiscal year 2021. The primary reason for the decrease was a decrease in realized and unrealized gain on investments of \$48.5 million, and a decrease in interest revenue on student loans of \$9.1 million. This decrease was partially offset by an increase in net servicing fee revenue of \$36.3 million and a decrease in the amount of special allowance paid, which increases revenue, of \$2.2 million. Interest on student loans declined primarily due to a \$111.0 million reduction in student loans outstanding. The decrease in special allowance in fiscal year 2022 was due to an overall increase in interest rates. The interest rate that impacts the special allowance calculation is the one-month LIBOR rate. The average one-month LIBOR rate increased 0.22% to 0.35% in fiscal year 2022 from 0.13% in fiscal year 2021. The increase in the rates results in a decreased amount of special allowance that is paid.

Fixed rate unsubsidized Stafford loans made on or after July 1, 2006 and subsidized Stafford loans made between July 1, 2006 and June 30, 2008, in all loan statuses bear interest at 6.8%. Fixed rate subsidized Stafford loans made between July 1, 2008 and June 30, 2009, bear interest at 6.0%, while the same loans made between July 1, 2009 and June 30, 2010, bear interest at 5.6%. Subsidized and unsubsidized Stafford loans made on or after July 1, 1998 and before July 1, 2006, that are in a status other than in-school, in-grace, or deferment bear interest at a rate equivalent to the 91-day U.S. Treasury Bill (91-day T-Bill) rate plus 2.30%, with a maximum rate of 8.25%. Stafford loans made within the same period that are in an in-school, in-grace, or deferment status bear interest at a rate equivalent to the 91-day T-Bill rate plus 1.70%, with a maximum rate of 8.25%. The variable rate loans are adjusted annually on July 1 based on the 91-day T-Bill rate as of the last auction date in May. The 91-day T-Bill rate in effect for fiscal year 2023 was 1.14%, which set the rates on these loans at 3.44% and 2.84%, respectively. The rates on the same loans during fiscal year 2022 were 2.32% and 1.72%, respectively, and during fiscal year 2021 were 2.43% and 1.83%, respectively.

PLUS loans first disbursed on or after July 1, 2006 bear interest at a fixed rate of 8.5%. Variable rate PLUS loans made on or after July 1, 1998 bear interest at a rate equivalent to the 91-day T-Bill plus 3.10%, with a maximum rate of 9.0%. The rates are adjusted annually on July 1 based on the 91-day T-Bill rate as of the last auction date in May. The 91-day T-Bill rate in effect for fiscal year 2023 was 1.14%, which set the rate on these loans at 4.24%, as compared to 3.12% for fiscal year 2022 and 3.23% for fiscal year 2021. Consolidation loans for which the application was received by an eligible lender on or after October 1, 1998 bear interest at a rate equal to the

## Higher Education Loan Authority of the State of Missouri

### Management's Discussion and Analysis (continued) (Unaudited)

#### **Operating Results (continued)**

weighted average of the loans consolidated, rounded to the nearest higher one-eighth of 1%, with a maximum rate of 8.25%.

Special allowance is paid to or rebated by the Company on the spread between student loan borrower interest rates and the one-month LIBOR or 91-day T-Bill rates. For example, federal law requires the Company to charge a parent an 8.5% interest rate on a PLUS loan originated after July 1, 2006, which the Company collects from the parent borrower. However, the Company only earns a yield on that loan at the one-month LIBOR rate plus 1.94%. The one-month LIBOR rate for the quarter ended June 30, 2023 was 5.18%, which means the Company's annual yield for that quarter was 7.12%. The Company is required to rebate the additional interest paid by the borrower of 1.38% (8.5% – 7.12%) to the Department through the rebate of excess special allowance, which is often referred to as negative special allowance.

#### *Operating Expenses*

Total operating expenses increased \$180.8 million (129%) in fiscal year 2023 from fiscal year 2022. The increase was a result of an increase in general and administrative expense of \$159.6 million, an increase in bond related expenses of \$20.2 million, and an increase of \$1.0 million in student loan related expenses. This compares to a \$41.2 million (41%) increase in operating expenses in fiscal year 2022 from fiscal year 2021. The increase in fiscal year 2022 was a result of an increase in general and administrative expense of \$47.0 million offset by a decrease in bond related expenses of \$5.8 million.

General and administrative expenses, which include salaries and employee benefits, postage and forms, computer services, professional fees, occupancy expense, depreciation and amortization, grants, and other operating expenses, increased by \$159.6 million (134%) in fiscal year 2023. The increase in general and administrative expenses can be attributed primarily to a \$114.0 million increase in salaries and a \$31.4 million increase in computer services. General and administrative expenses increased due to the rise in salaries and employee benefits as the average number of employees and contracted employees increased in fiscal year 2023. This rise was led by an increase in the volume of student loans the Company is servicing and the Company's continual extensive efforts to consult and assist borrowers. The increase in salaries and benefits is also a result of planned return to repayment for direct loan borrowers in January 1, 2023, after being paused since March 2020. Direct Loan borrowers are now expected to return to repayment in September 2023. The Company is ramping up staffing in preparation of return to repayment. The Company began fiscal year 2023 servicing approximately 5.5 million borrowers and ended the fiscal year servicing approximately 8.2 million borrowers. Comparatively, in fiscal year 2022, general and administrative expenses increased \$47.0 million (65%). The increase in general and administrative expenses can be attributed primarily to a \$31.0 million increase in salaries and a \$10.1 million

## Higher Education Loan Authority of the State of Missouri

### Management's Discussion and Analysis (continued) (Unaudited)

#### Operating Results (continued)

increase in computer services. General and administrative expenses increased due to the increase in salaries and employee benefits as the average number of employees increased in fiscal year 2022.

Interest expense increased \$22.1 million (165%) to \$35.5 million in fiscal year 2023 from \$13.4 million in fiscal year 2022, primarily due to interest rate increases. In addition, there was an \$255.4 million (24.7%) decrease in bonds outstanding debt of the Company. In fiscal year 2019, the Company obtained a Direct Borrowing Note Payable from Commerce Bank in the amount of \$13.3 million. The interest rate for the Note Payable is fixed at 4.24%. On December 19, 2018, the Company entered into a Revolving Credit and Security Agreement with Bank of America for a Line of Credit in the amount of \$50 million and it was increased to \$100 million on November 6, 2019, increased to \$270 million on December 2, 2020, decreased to \$175 million on May 19, 2021, and decreased to \$100 million on May 19, 2022. On May 16, 2023, the Line of Credit expired.

The Company continued to experience various interest rate increases on its debt in fiscal year 2023 due to market interest rate changes. The interest on LIBOR floating rate notes increased throughout the year. The Company's floating rate notes are priced at one-month LIBOR plus a spread from 0.57% to 1.52%. There is a fixed rate component which is 1.53%, 1.97%, and 1.58% for bond 2021-1, 2021-2, and 2021-3, respectively. The average one-month LIBOR rate increased 3.66% to 4.01% in fiscal year 2023. Total bond related expenses increased \$20.2 million to \$36.0 million in fiscal year 2023. Comparatively, bond related expense decreased \$5.8 million to \$15.8 million in fiscal year 2022 from \$21.6 million in fiscal year 2021. The fiscal year 2023 increase in bond related expense is primarily due to market interest rate increases.

Total student loan-related expenses increased in fiscal year 2023 to \$6.5 million from \$5.5 million in fiscal year 2022. There was a \$1.2 million decrease in consolidation rebate fees to \$4.7 million in fiscal year 2023. The decrease in consolidation rebate fees was due to a \$116.0 million decline in the Company's outstanding consolidation student loan principal during fiscal year 2023. The provision for loan losses increased by \$2.1 million in fiscal year 2023 primarily due to the Company and MOFELP loan loss reserve increases. In comparison, total student loan-related expenses were flat at \$5.5 million in fiscal year 2022 from \$5.6 million in fiscal year 2021. There was a \$0.6 million decrease in consolidation rebate fees to \$5.9 million in fiscal year 2022. The decrease in consolidation rebate fees was due to a \$69.9 million decline in the Company's outstanding consolidation student loan principal during fiscal year 2022. The benefit for loan losses decreased \$0.6 million in fiscal year 2022 primarily due to the MOFELP loan loss reserve increases.

## Higher Education Loan Authority of the State of Missouri

### Management's Discussion and Analysis (continued) (Unaudited)

#### **Operating Results (continued)**

##### *Non-operating Revenues and Expenses*

In fiscal years 2023, 2022, and 2021, the Company contributed \$2.0 million, \$2.0 million, and \$2.0 million, to the Bright Flight Scholarship fund, respectively. In fiscal years 2023, 2022, and 2021, the Company contributed \$2.0 million, \$2.0 million, and \$2.0 million to the A+ Scholarship Program, respectively. In fiscal years 2023, 2022 and 2020, the Company contributed \$2.0 million, \$2.0 million and \$1.25 million to Access Missouri Financial Assistance Program, respectively. In fiscal year 2023, the Company contributed \$40 thousand to the Advanced Placement Incentive Grants Program.

#### **Continuing Developments**

##### *Lewis and Clark Discovery Initiative*

On August 28, 2007, legislation establishing the Lewis and Clark Discovery Initiative (the Initiative) became law. The legislation, known as SB 389 (the LCDI Legislation) directs the Company to distribute \$350.0 million into a fund in the State Treasury known as the Lewis and Clark Discovery Fund (the Fund) by September 30, 2013, in varying increments, unless otherwise approved by the Company and the Missouri Commissioner of the Office of Administration. Investment earnings on the Fund are credited against subsequent payments by the Company. In addition, the LCDI Legislation provides that the Company may delay payments if the Company determines that any such distribution may materially adversely affect the service and benefits provided to Missouri students or residents in the ordinary course of the Company's business, the borrower benefit programs of the Company, or the economic viability of the Company. The General Assembly has appropriated amounts to be deposited in the Fund for certain capital projects at public colleges and universities. The law provides that following the initial distribution by the Company, the Missouri Director of Economic Development shall allocate to and reserve for the Company in 2007 and the next 14 years, at least 30% of Missouri's tax-exempt, private activity bond cap allocation. The amount of this allocation may be reduced for 2015 and later years by the percentage of the \$350.0 million not paid by the Company to the Fund by the end of the preceding year.

On September 7, 2007, the Members of the Company's Board approved a resolution to fund the initial payment of \$230.0 million and on September 14, 2007, in accordance with the Board's Resolution, the Company sent a \$230.0 million wire to the Missouri State Treasury. Subsequently, the Members of the Company's Board approved resolutions to fund additional payments, net of interest income earned on the funds on deposit with the State Treasurer, of \$3.9 million. The Fund has also earned interest income of \$10.9 million since inception. For each quarterly payment due subsequent to September 30, 2008 through the year ended June 30, 2013, the Board did not

## Higher Education Loan Authority of the State of Missouri

### Management's Discussion and Analysis (continued) (Unaudited)

#### **Continuing Developments (continued)**

authorize a payment to the Fund. The remaining unfunded amount of the LCDI was \$105.1 million as of June 30, 2023.

During fiscal years 2011, 2012, and 2013, the Company received two-year, three-year, and one-year extensions, respectively, from the Commissioner of the Office of Administration on the payment of LCDI funds to September 30, 2019. The extensions were approved as a part of the Company's agreement to provide \$30.0 million, \$30.0 million, and \$5.0 million for need-based scholarships under the Access Missouri Financial Assistance Program during the 2011, 2012, and 2013 fiscal years, respectively.

During fiscal year 2017, the Company received a five-year extension from the Commissioner of the Office of Administration on the payment of LCDI funds to September 30, 2024 with one year extensions for each additional \$5 million in Foundation funding.

The Company will continue analyzing and determining on an annual basis what, if any, distribution the Company should make to the LCDI Fund. The Company is unsure whether it will be able to make any significant future distributions required by the LCDI Legislation. Any such distributions by the Company could substantially decrease the amount of its capital and, accordingly, erode its funds for new programs and contingencies related to current operations.

The Company accounts for the funding of the LCDI in accordance with GASB Statement No. 33 as a voluntary non-exchange transaction, because the Company will provide value to the Fund in excess of the value received in return. The Company does not record a liability for the unfunded amount of the LCDI because the time requirement of the final funding has not been met and payment of the unfunded amount has not been deemed probable as of June 30, 2023.

# Higher Education Loan Authority of the State of Missouri

## Statements of Net Position (Dollars in Thousands)

	As of June 30, 2023	As of June 30, 2022
<b>Assets and deferred outflows of resources:</b>		
Current assets:		
Cash and cash equivalents:		
Restricted	\$ 45,106	\$ 60,587
Unrestricted	85,430	91,352
Total cash and cash equivalents	<u>130,536</u>	<u>151,939</u>
Investments – unrestricted	161,611	150,702
Student loans receivable	97,810	110,519
Accrued interest receivable:		
Interest subsidy – U.S. Department of Education	245	343
Student loans receivable (less allowance for doubtful loans \$718 and \$819)	67,224	74,301
Special allowance subsidy receivable	4,856	-
Total accrued interest receivable	<u>72,325</u>	<u>74,644</u>
Servicing fees receivable	41,083	13,803
Miscellaneous receivables and prepaid expenses	4,826	2,644
Total current assets	<u>508,191</u>	<u>504,251</u>
Long-term assets:		
Student loans receivable (less allowance for doubtful loans \$10,037 and \$12,270)	723,844	942,957
Net pension asset	8,264	-
Miscellaneous receivables and prepaid expenses	250	425
Capital assets, at cost less accumulated depreciation and amortization of \$28,330 and \$27,090	20,167	19,070
Total long-term assets	<u>752,525</u>	<u>962,452</u>
Total assets	<u>\$ 1,260,716</u>	<u>\$ 1,466,703</u>
Deferred outflows of resources – pension	18,952	24,689
Deferred outflows of resources – SERP	142	148
Total deferred outflows of resources	<u>19,094</u>	<u>24,837</u>
<b>Liabilities, deferred inflows of resources and net position:</b>		
Current liabilities:		
Bonds payable	\$ 79,757	\$ 93,031
Note payable	8,297	1,251
Accrued interest payable	557	294
Special allowance subsidy payable	-	7,896
Other	61,920	32,584
Total current liabilities	<u>150,531</u>	<u>135,056</u>
Long-term liabilities:		
Bonds payable	699,758	941,890
Note payable	-	8,297
Other	1,292	801
Net pension liability – pension	-	11,135
Net pension liability - SERP	1,448	1,409
Total long-term liabilities	<u>702,498</u>	<u>963,532</u>
Total liabilities	<u>\$ 853,029</u>	<u>\$ 1,098,588</u>
Deferred inflows of resources - pension	11,481	8,769
Deferred inflows of resources - SERP	393	503
Deferred inflows of resources - leases	202	283
Total deferred inflows of resources	<u>12,076</u>	<u>9,555</u>
Net position:		
Net investment in capital assets	11,021	8,619
Restricted for debt service	75,383	65,260
Unrestricted	328,301	309,518
Total net position	<u>\$ 414,705</u>	<u>\$ 383,397</u>

See notes to financial statements.

# Higher Education Loan Authority of the State of Missouri

## Statements of Revenues, Expenses, and Changes in Net Position (Dollars in Thousands)

	For the Year Ended June 30, 2023	For the Year Ended June 30, 2022
Operating revenues, net:		
Interest on student loans, net	\$ 49,778	\$ 55,329
U.S. Department of Education:		
Interest subsidy	1,107	1,540
Special allowance	11,721	(19,339)
Investment income	5,410	3,114
Realized and unrealized gain on investments	11,980	(32,322)
Servicing fees	279,186	107,531
Less: Subcontractor fees	(715)	(1,297)
Other	107	99
Total operating revenues, net	<u>358,574</u>	<u>114,655</u>
Operating expenses:		
Interest expense	35,467	13,405
Bond maintenance fees	513	724
Cost of issuance	-	1,670
Total bond-related expenses	<u>35,980</u>	<u>15,799</u>
Consolidation rebate fees	4,722	5,924
Provision (benefit) for loan losses	1,765	(376)
Total student loan-related expenses	<u>6,487</u>	<u>5,548</u>
Salaries and employee benefits	177,261	63,284
Postage and forms	8,270	5,335
Computer services	59,697	28,253
Professional fees	8,738	5,475
Occupancy expense	1,308	1,023
Depreciation and amortization	2,118	1,826
Scholarships	6,417	4,561
Grants	622	1,101
Other operating expenses	14,328	8,242
Total general and administrative expenses	<u>278,759</u>	<u>119,100</u>
Total operating expenses	<u>321,226</u>	<u>140,447</u>
Operating income (deficit)	<u>37,348</u>	<u>(25,792)</u>
Non-operating expenses:		
Bright Flight Contribution	(2,000)	(2,000)
Advanced Placement Incentive Grant	(40)	-
Access Missouri Financial Assistance Program	(2,000)	(2,000)
A+ Scholarship Program	(2,000)	(2,000)
Total non-operating expenses	<u>(6,040)</u>	<u>(6,000)</u>
Change in net position	31,308	(31,792)
Net position, beginning of year	383,397	415,189
Net position, end of year	<u>\$ 414,705</u>	<u>\$ 383,397</u>

See notes to financial statements.

# Higher Education Loan Authority of the State of Missouri

## Statements of Cash Flows (Dollars in Thousands)

For the Years Ended June 30, 2023 and 2022

	<b>2023</b>	<b>2022</b>
Cash flows from operating activities:		
Student loan and interest purchases	\$ (6,524)	\$ (18,299)
Student loan repayments	299,854	184,333
Payments to employees	(72,127)	(32,183)
Payments to vendors	(205,542)	(80,769)
Net settlement of government interest	175	(15,413)
Cash received for servicing fees	262,465	104,652
Student loan repayments for lenders	(116)	(36,820)
Disbursement of new student loans	(4,729)	(4,719)
Net cash provided by operating activities	<u>273,456</u>	<u>100,782</u>
Cash flows from noncapital financing activities:		
Proceeds from line of credit	-	1,000
Repayment of line of credit	-	(146,819)
Proceeds from issuance of notes payable	-	197,455
Repayment of bonds	(255,407)	(115,169)
Repayment of notes payable	(1,252)	(1,199)
Interest paid on debt	(35,204)	(13,365)
Cash paid for issuance costs	-	(1,662)
Contributions to Bright Flight	(2,000)	(2,000)
Contributions to Advanced Placement Incentive Grant	(40)	-
Contributions to Access Missouri	(2,000)	(2,000)
Contributions to A+ Scholarship Program	(2,000)	(2,000)
Net cash used in noncapital financing activities	<u>(297,903)</u>	<u>(85,759)</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(3,064)	(824)
Proceeds from sale of capital assets	3	-
Net cash used in capital and related financing activities	<u>(3,061)</u>	<u>(824)</u>
Cash flows from investing activities:		
Purchase of investments, net of sales	867	(9,158)
Interest received on cash, cash equivalents and investments	5,238	3,009
Net cash provided by (used in) investing activities	<u>6,105</u>	<u>(6,149)</u>
Change in cash and cash equivalents	(21,403)	8,050
Cash and cash equivalents, beginning of year	151,939	143,889
Cash and cash equivalents, end of year	<u>\$ 130,536</u>	<u>\$ 151,939</u>

# Higher Education Loan Authority of the State of Missouri

## Statements of Cash Flows (Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (deficit)	\$ 37,348	\$ (25,792)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,118	1,826
Net pension asset and inflows and outflows	82	(7,614)
Investment income	(5,168)	(2,845)
Provision (benefit) for loan losses	1,765	(376)
Realized and unrealized (gain) loss on investments	(11,980)	32,322
Loss on sale of capital assets	224	-
Interest expense	35,467	13,405
Cost of issuance	-	1,662
Change in assets and liabilities:		
Decrease in student loans receivable	230,057	111,368
Decrease (Increase) in accrued interest receivable	7,175	(3,158)
(Increase) in servicing fees receivable	(27,279)	(2,669)
(Increase) in miscellaneous receivables and prepaid expenses	(1,953)	(451)
(Decrease) Increase in net pension liability	(11,097)	10,816
Increase (Decrease) in other liabilities	29,449	(30,079)
(Decrease) Increase in special allowance subsidy	(12,752)	2,249
Total adjustments	236,108	126,574
Net cash provided by operating activities	<u>\$ 273,456</u>	<u>\$ 100,782</u>
Noncash investing, capital, and financing activities:		
Changes in investments and outstanding liabilities related to capital assets	<u>\$ (17,796)</u>	<u>\$ 42,079</u>

# Higher Education Loan Authority of the State of Missouri

## Statements of Fiduciary Net Position (Dollars in Thousands)

	June 30, 2023	June 30, 2022
Assets:		
Cash and cash equivalents	\$ 2,870	\$ 467
Investments:		
Fixed income securities	16,436	11,662
Equities	52,626	37,442
Real estate	762	1,057
Total cash, cash equivalents, and investments	72,694	50,628
Receivables	163	91
Total assets	72,857	50,719
Liabilities:		
Due to unsettled trades	-	-
Net position restricted for pension benefits	\$ 72,857	\$ 50,719

# Higher Education Loan Authority of the State of Missouri

## Statements of Changes in Fiduciary Net Position (Dollars in Thousands)

	For the Year Ended June 30, 2023	For the Year Ended June 30, 2022
Additions:		
Contributions:		
Employer	\$ 16,023	\$ 2,009
Investment earnings:		
Interest	530	438
Dividends	925	734
Net increase (decrease) in fair value of investments	6,220	(11,984)
Less: investment expense	(171)	(174)
Total additions	<u>23,527</u>	<u>(8,977)</u>
Deductions:		
Benefit payments	<u>1,389</u>	<u>4,918</u>
Total deductions	<u>1,389</u>	<u>4,918</u>
Net increase (decrease) in fiduciary net position	22,138	(13,895)
Net position restricted for pension benefits:		
Beginning of year	<u>50,719</u>	<u>64,614</u>
End of year	<u>\$ 72,857</u>	<u>\$ 50,719</u>

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (Dollars in Thousands)

### 1. Description of the Organization

The Higher Education Loan Authority of the State of Missouri and its blended component units, the Missouri Scholarship and Loan Foundation (the Foundation), and Knowledge Finance collectively, (the Company) was created by Legislation, which was signed into law on June 15, 1981 by the Governor of the State of Missouri and became effective on September 28, 1981. The purpose was to provide a secondary market for loans made under the Federal Family Education Loan Program (FFELP) provided for by the Higher Education Act. The legislation was amended, effective August 28, 1994, effective August 28, 2003, effective August 28, 2007 and again effective May 2, 2008, to provide the Company with generally expanded powers to finance, originate, acquire, and service student loans, including, but not limited to, those guaranteed or insured pursuant to the Higher Education Act. The Company is assigned to the Missouri Department of Higher Education; however, by statute, the State of Missouri is in no way financially accountable for the Company. Student loan revenue bonds outstanding are payable as specified in the resolutions authorizing the sale of bonds. The bonds are not payable from funds received from taxation and are not debts of the State of Missouri or any of its other political subdivisions.

The Company was historically one of the lenders for supplemental loans made available to students in the Midwestern region who had reached the maximum amount available under FFELP. The balance of these loans outstanding is approximately 3% of the total loan receivable balance as of June 30, 2023. During fiscal year 2008, the Company discontinued originating supplemental and FFELP consolidation loans.

On March 30, 2010, the President signed into law The Health Care and Education Reconciliation Act of 2010, which included the Student Aid and Fiscal Responsibility Act (SAFRA). Effective July 1, 2010, the legislation eliminated the authority to provide new loans under FFELP and required that all new federal loans be made through the Direct Loan Program. The new law does not alter or affect the terms and conditions of existing FFELP loans. The Company continues to service and purchase FFELP loans.

After restructuring operations to reflect the change in law, in September 2011, the Company was awarded a Federal Servicing contract with the U.S. Department of Education (the Department) and given the specified initial allotment of 100,000 federal accounts for servicing. In accordance with the solicitation, the Company also began partnering with other nonprofit loan servicing organizations (NFP servicers or subcontractors) that were eligible to receive the initial allotment of 100,000 federal accounts but did not have a servicing contract with the Department. Under agreements signed with these subcontractors, the Company services each entity's initial allocation of federal accounts and initially provided the subcontractor with a portion of the revenues.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 1. Description of the Organization (continued)

#### Blended Component Units

##### Missouri Scholarship and Loan Foundation

On June 11, 2010, the Company's Board approved the creation of the Missouri Scholarship Foundation, appointed the initial Board of Director. The Missouri Scholarship Foundation was incorporated as a Missouri not-for-profit corporation for the primary purposes of receiving gifts and grants, raising funds, accepting transfers and contributions, and using the resulting funds for (1) administering grant, scholarship, and related programs on behalf of the Company and other entities and (2) assisting students who are residents of the State of Missouri and students who attend post-secondary institutions located or based in the State of Missouri to gain access to and finance their post-secondary education.

In September 2013, the Missouri Scholarship Foundation's Board approved the establishment of the Missouri Family Education Loan Program (MOFELP). MOFELP is an interest-free, private student loan program designed to provide borrowing options for Missouri students who have financial need, but may not meet the traditional credit requirements for private loans. In conjunction with the roll-out of MOFELP, the Missouri Scholarship Foundation's Board approved changing the name of the organization to the Missouri Scholarship and Loan Foundation (the Foundation) to better reflect its purpose. The Foundation's MOFELP loans are originated and serviced by the Company.

The Foundation has been approved by the Internal Revenue Service (IRS) as a tax-exempt 501(c)(3) entity for federal tax purposes. All significant contributions received by the Foundation are expected to be made by the Company.

The Bylaws of the Foundation call for the Foundation to be governed by a Board of three to thirteen Directors. Directors are appointed by the existing Board of Directors of the Foundation after the proposed appointments are submitted to the Company for approval. The Company is responsible for approving or disapproving proposed appointees to the Board of Directors. Any Director elected by the Board of Directors can be removed without cause by the Company. The current Foundation Directors include the Company's Executive Director, the Company's Chief Financial Officer, the Company's Director of Business Development and Government Relations, the Deputy Commissioner for Operations of Higher Education and Workforce Development, the President and CEO of Community Foundation of the Ozarks and the retired President and CEO of Kansas City Scholars Inc. The Executive Director of the Company serves as a voting member of the Board ex officio. The Company must approve any amendments to the Bylaws or Articles of Incorporation of the Foundation. The Foundation may only appoint an executive director, responsible for overseeing the Foundation's day-to-day operations, with the approval of the Company.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### **1. Description of the Organization (continued)**

The Foundation can be dissolved by its own Board of Directors with approval from the Company. Upon dissolution, any remaining assets would be reverted to the Company. The Company does not have the unilateral authority to dissolve the Foundation; dissolution first requires the action of its own Board of Directors.

#### **Knowledge Finance**

On September 27, 2019, the Company's Board approved the establishment of Knowledge Finance with the Company as the sole corporate member, the Board of Directors to be composed only of the Company's executives. On October 2, 2019, Knowledge Finance was incorporated as a Missouri not-for-profit corporation for the primary purposes of receiving gifts and grants, to raise funds, accept transfers and contributions, and to use the resulting funds for its proper purposes, including, without limitation, the administration of grant, scholarship and related programs on behalf of the other entities, or to make distributions thereof for purposes and activities that qualify as exempt under section 501c(3) of the Internal Revenue Code.

The Foundation and Knowledge Finance are treated as component units as the Company approves the appointment of the Board of Directors and has the ability to impose its will on the units. The units are blended component units as they are a not-for-profit corporation in which the Company is the sole corporate member. As a blended component unit, the financial results of the Foundation and Knowledge Finance are included with the financial results of the Company.

### **2. Summary of Significant Accounting Policies**

#### **Basis of Presentation and Accounting**

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### **2. Summary of Significant Accounting Policies (continued)**

The financial statements have been prepared on the basis of the governmental enterprise fund concept, which pertains to financial activities that operate similarly to a private business enterprise. The financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. The Company is engaged only in business-type and fiduciary activities; therefore, government-wide financial statements are not presented.

In accordance with its bond and other borrowing resolutions, fund accounting principles are utilized, whereby each fund is a separate set of self-balancing accounts. The assets of each bond fund are restricted pursuant to the bond resolutions. To accomplish the various public purpose loan programs empowered by its authorizing legislation and to conform with the bond and note resolutions and indentures, financial activities are recorded in the various operating and bond-related funds (see Note 9). Administrative transactions and those loan transactions not associated with bond issues are recorded in the Operating Fund. For financial statement presentation purposes, the funds have been aggregated into a single enterprise fund.

### **Fiduciary Fund Statements**

The statement of fiduciary net position and the statement of changes in the fiduciary net position provide information on the Company's fiduciary activities in its pension trust fund accounts which reports resources held in trust for pension benefit payments to qualified beneficiaries.

### **Use of Estimates**

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of net position dates and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to pension, credit deteriorated loans, the allowance for doubtful loans, and calculations of current and long-term student loans receivable and current and long-term bonds payable.

### **Cash Equivalents**

All investment securities with original maturities of less than 90 days at the date of purchase are considered cash equivalents. All cash equivalents that are held by a trustee in accordance with the provisions of bond indentures or other financing agreements are classified as restricted. Cash equivalents are reported at fair value. See Note 3 for more information.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 2. Summary of Significant Accounting Policies (continued)

#### Investments

Investments are reported at fair value. Restricted investments include those that are held by a trustee in accordance with the provisions of bond indentures or other financing agreements. See Note 3 for more information.

#### Student Loans Receivable

Student loans receivable consist of FFELP, MOFELP, and supplemental loans, which are stated at the principal amount outstanding adjusted for an allowance for doubtful amounts. In addition, the Company has purchased credit deteriorated loans at a discount. The credit deteriorated loans are stated at cost and are accreted to the present value of expected future cash flows, as discussed in Note 4.

#### Accrued Interest Receivable

Interest on student loans is accrued based upon the actual principal amount outstanding. The Department makes quarterly interest payments on subsidized FFELP loans until the student is required, under the provisions of the Higher Education Act, to begin repayment. Repayment must begin generally within six months after the student completes his or her course of study, leaves school, or ceases to carry at least one-half the normal full-time academic load as determined by the participating institution. The Department also makes quarterly interest payments on subsidized FFELP loans that are in an eligible income-driven repayment plan or an eligible deferment status for up to three years. The amount of accrued interest received is reduced by amounts due to the Department for negative special allowance as described below. There is no interest charged on MOFELP loans.

#### Allowance for Doubtful Amounts

Allowance for doubtful amounts are estimates of probable losses incurred in the FFELP, MOFELP, and supplemental loan portfolios at the statement of net position dates. Estimated probable losses are expensed through the provision for loan losses in the period that the loss event occurs. Estimated probable losses contemplate expected recoveries. When a charge-off event occurs, the carrying value of the loan is charged to the allowance for doubtful loans. The amount attributable to expected recoveries remains in the allowance for doubtful loans until received.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 2. Summary of Significant Accounting Policies (continued)

#### *Supplemental Loans*

The supplemental loans in the portfolio present a greater risk of loan loss because the loans are either self-insured or insured by a third party as opposed to FFELP loans, which are insured by the Department. As such, in evaluating the adequacy of the allowance for doubtful loans on the supplemental loan portfolio, several factors are considered, including the loan's insured status, whether the loan was provided to a graduate or undergraduate student, and the age of the receivable.

Estimates of inherent loss default rates in the supplemental loan portfolio are a percentage of the original disbursed principal balance. The growth rates of the default rate over the prior years are also computed. Then, the segmented portfolio is analyzed to determine if the loans require a reserve for additional probable losses. Reserve adjustments are modeled to adjust for insured loans, loans with collection agencies, loans with judgments, and loans that have emerged from bankruptcy or have had a loan modification. Loans with judgments or modifications with recently ended forbearances are also evaluated for reserve adjustments. Insured loans are guaranteed at 95%; therefore, all insured loans are analyzed separately from the uninsured supplemental loan portfolio. Supplemental loan principal is charged off against the allowance when the loan exceeds 270 days delinquent. Subsequent recoveries on loans charged off are recorded directly to the allowance based on the total principal outstanding.

The allowance associated with the accrued interest on supplemental loans is calculated in a manner that is consistent with the method used to calculate the allowance for doubtful loans on the supplemental loan portfolio as described above.

#### *FFELP Loans*

The methodology for estimating the allowance for loan losses in the FFELP portfolio incorporates both quantitative and qualitative factors. Historical data on defaults and write-offs experienced are utilized to project inherent losses that have occurred in the FFELP portfolio. Estimated defaults are multiplied by a percentage, consisting of the weighted-average non-guarantee rate adjusted for trending, to determine the allowance for loan losses required on the outstanding principal balances of FFELP loans. Because accrued interest receivable on FFELP loans is insured at the same percentages as the related principal on those loans, the reserve percentage on FFELP principal is applied to the accrued interest on FFELP loans to determine the estimated allowance for accrued interest receivable.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 2. Summary of Significant Accounting Policies (continued)

#### *MOFELP Loans*

The MOFELP loans in the portfolio present a greater risk of default because the loans are self-insured and disbursed to borrowers that have demonstrated financial need and do not require minimum credit requirements. The methodology for estimating the allowance for loan losses in the MOFELP portfolio balance is based on historical data on defaults and aging of the receivable. Additionally, a MOFELP loan is charged off against the allowance when the loan exceeds 270 days delinquent.

#### **Miscellaneous Receivables and Prepaid Expenses**

At June 30, 2023 and 2022, miscellaneous receivables and prepaid expenses consist of the following:

	<b>2023</b>	<b>2022</b>
Other prepaid expenses	\$ 4,187	\$ 2,262
Other receivables	889	807
Total miscellaneous receivables and prepaid expenses	<u>\$ 5,076</u>	<u>\$ 3,069</u>
Current portion	\$ 4,826	\$ 2,644
Long-term portion	250	425
Total	<u>\$ 5,076</u>	<u>\$ 3,069</u>

#### **Pension**

For purposes of measuring the net pension asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Higher Education Loan Authority of the State of Missouri Pension Plan (the Pension Plan), the Supplemental Pension Plan (SERP), and additions to/deductions from the Pension Plan's and SERP's fiduciary net position have been determined on the same basis as they are reported. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 2. Summary of Significant Accounting Policies (continued)

#### Capital Assets

Capital assets consist of land, buildings and improvements, office furniture and equipment, software assets, and right to use assets. The policy is to capitalize all assets purchased with an initial individual cost of \$10 or more and an estimated useful life of more than one year. Capital assets are reported at cost, net of accumulated depreciation and amortization, and net of estimated impairments, if any. Capital assets are reviewed for impairment in accordance with GASB Codification section 1400, *Reporting Capital Assets*. Depreciation is charged to operations on the straight-line method over the estimated useful lives of the related assets as follows:

<u>Asset Category</u>	<u>Estimated Useful Life</u>
Buildings and improvements	3 – 30 years
Furniture and equipment	3 – 7 years
Software assets	3 – 7 years
Right to use assets	3 – 10 years

#### Deferred Outflows of Resources

Deferred outflows of resources are a consumption of net position that is applicable to a future reporting period. As of June 30, 2023 and 2022, recorded deferred outflows of resources related to pension in the amounts of \$18,952 and \$24,689 respectively, for the Pension Plan and \$142 and \$148 respectively, for the SERP, are a result of a net difference between projected and actual earnings on pension plan investments.

#### Special Allowance Subsidy Receivable/Payable

The Company as loan owners do not necessarily earn what a borrower pays. The Department provides a special allowance to student loan owners participating in FFELP. Special allowance was designed to ensure loan owners earn a market rate of interest by making up the difference between what a borrower pays in interest (borrower rate) under federal law and what a loan owner earns (lender yield) on the loan under federal law. On December 23, 2011, The Consolidation Appropriation Act of 2012 was signed into law, which, in part, allowed FFELP loan holders to elect to substitute one-month LIBOR for the 90-day AA Financial Commercial Paper (90-day CP) rate for the special allowance program (SAP) index. This was a one-time opportunity, and the election was made as required. All owned FFELP loans disbursed after January 1, 2000 are indexed to one-month LIBOR.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 2. Summary of Significant Accounting Policies (continued)

The special allowance amount is the result of applying a percentage, based upon the average bond equivalent rates of the one-month LIBOR or 90-day CP, to the average daily unpaid principal balance and capitalized interest of the student loans. For loans first disbursed prior to January 1, 2000, the 91-day Treasury bill rate is used rather than the one-month LIBOR or 90-day CP rates. The special allowance is accrued as earned or payable.

Borrower interest rates for Stafford and Parent Loans for Undergraduate Students (PLUS) loans first disbursed between July 1, 1998 and June 30, 2006 were variable rates set annually based on the 91-day Treasury bill plus a spread between 1.70% and 3.10%. Lender yields on many of those same loans (loans first disbursed between January 1, 2000 and April 1, 2006) adjust quarterly based on the one-month LIBOR rate plus a spread between 1.74% and 2.64%; however, the borrower rate serves as the “floor” for the lender yield. Loans first disbursed in these time periods can only earn positive special allowance due to the “floor” income feature. For loans first disbursed after April 1, 2006, federal law changed, removing the “floor” income feature, which allows the lender yield to float down below the borrower rate. In these situations, the loan owner earns less than the borrower pays in interest causing negative special allowance, which must be rebated to the Department. This situation was magnified by additional changes in federal law that implemented fixed borrower interest rates from 6.8% to 8.5% for loans first disbursed after July 1, 2006. Furthermore, for loans first disbursed after October 1, 2007, the lender’s spread over the 90-day CP rate was reduced by 0.40% to 0.70%. The 90-day CP rate was later converted to one-month LIBOR. Total net special allowance became positive in fiscal year 2023, due to the loan portfolio mix and the increase in the rate of one-month LIBOR.

### Deferred Inflows of Resources

Deferred inflows of resources are an acquisition of net position that is applicable to a future reporting period. As of June 30, 2023 and 2022, deferred inflows of resources related to pension are \$11,481 and \$8,769, respectively, for the Pension Plan and \$393 and \$503, respectively, for the SERP, which are a result of differences between expected and actual experience. The Company also reports deferred amounts related to leases of \$202 and \$283 as of June 30, 2023 and 2022, respectively.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued)

*(Dollars in Thousands)*

### **2. Summary of Significant Accounting Policies (continued)**

#### **Net Position**

Net position is classified into three components: net investment in capital assets, restricted for debt service, and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any liabilities attributable to the acquisition, construction, or improvement of those assets. Net position is reported as restricted when limitations on the use of net position are externally imposed by outside parties. Restricted net position consists of the minimum collateral requirements discussed in Note 6, net of related liabilities, as defined in the bond resolutions. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position. Unrestricted net position includes net position and deferred outflows of resources and deferred inflows of resources that do not meet the definition of either “net investment in capital assets” or “restricted.” Unrestricted net position includes that which is available for the operations or above the minimum collateral level required by the Bond Fund in which it is maintained. Removal of unrestricted net position from the Bond Funds is typically subject to the approval of one or more of the following: credit rating agencies, bond insurers, bondholders, and the trustee. Furthermore, extensive financial analysis is required and performed in conjunction with the approving party prior to the approval and removal of net position.

#### **Operating Revenues and Expenses**

Operating revenues and expenses consist of those items earned or incurred in carrying out the primary functions of business, which are to acquire, service, and finance student loans to ensure that all eligible post-secondary education students have access to student loans. Therefore, operating revenues generally include net interest earned on student loans and fees earned from servicing loans owned by other entities. Operating expenses include expenses related to bonds and other financings outstanding, student loans, and other general and administrative expenses necessary to carry out the operations.

When an expense is incurred for purposes for which both restricted and unrestricted resources are available for use, it is the policy to first apply expense to restricted resources, then unrestricted resources.

#### **Servicing Fee Revenue**

Servicing is provided for federal accounts owned by the Department under the Direct Loan Program and student loans owned by third-party lending institutions. Fees charged for these

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### **2. Summary of Significant Accounting Policies (continued)**

services are classified as servicing fees in the statement of revenues, expenses, and changes in net position and are recognized as the services are performed.

#### **Subcontractor Fees**

As described in Note 1, agreements have been entered into with subcontractors whereby the Company services each subcontractor's allotment of federal accounts provided by the Department. The Company provides each subcontractor a portion of the revenues earned from the Department on the subcontractor's designated federal accounts, in accordance with the terms of each agreement. The amounts provided to the subcontractors are expensed as subcontractor fees when incurred. The majority of these agreements expired during fiscal year 2020 and were not renewed.

#### **Interest Expense**

Interest expense primarily includes interest accrued on bonds and other borrowings, as well as broker dealer fees and amortization of bond discount.

#### **Bond Maintenance Fees**

Bond maintenance fees consist primarily of Line of Credit issuance costs, rating agency fees, trustee fees, commitment fees, and collection agency fees.

#### **Consolidation Rebate Fees**

The Company must remit a rebate fee for all federal consolidation loans made on or after October 1, 1993 to the Department on a monthly basis. This fee is equal to 1.05% per annum of the unpaid principal balance and accrued interest on the loans. For loans made from applications received during the period beginning October 1, 1998 through January 31, 1999, inclusive, this fee is equal to 0.62% per annum of the unpaid principal and accrued interest on the loans. This fee is not and cannot be charged to the borrower.

#### **Risk Management**

Coverage for exposure to various risks of loss, including property loss, torts, cyber liability, errors and omissions, and employee injuries is obtained through commercial insurance, which is purchased in amounts that are sufficient to cover the risk of loss. There has been no significant reduction in insurance coverage from coverage in the prior year for all categories of risk. Settlements have not exceeded insurance coverage for the past three fiscal years.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### **2. Summary of Significant Accounting Policies (continued)**

An estimated loss related to a loss contingency would be recorded as an expense and a liability if the following requirements are met: (1) information available before the financial statements are issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and (2) the amount of the loss can be reasonably estimated.

#### **Income Taxes**

The Company is a tax-exempt organization under the provisions of the Internal Revenue Code; accordingly, no provision for income taxes has been made in the accompanying financial statements.

#### **New Accounting Pronouncements**

Effective July 1, 2022 with retrospective implementation for all periods presented, the Company implemented GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA), which requires recognition of certain right-to-use subscription assets - an intangible asset - and a corresponding subscription liability, with the exception of short-term SBITAs, at the commencement of the subscription term. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The adoption of this statement increased fiscal year 2022 assets by \$426, increased liabilities by \$447, and increased expenses by \$21. There was no effect on beginning net position as of July 1, 2021 and beginning net position as of July 1, 2022 decreased \$21.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 3. Cash, Cash Equivalents, and Investments

Cash and investments held by the Company's pension plan are discussed in Note 8 and are excluded from the discussion in this section.

State law limits investments of the Company to any obligations of the State of Missouri, the U.S. government, or any instrumentality thereof; certificates of deposit or time deposits of federally insured banks, federally insured savings and loan associations, or insured credit unions; and, with respect to moneys pledged or held under a trust estate or otherwise available for the owners of bonds or other forms of indebtedness, any investment authorized under the bond resolution governing the security of payment of such obligations or repurchase agreements for the specified investments.

In addition, the Foundation is authorized to invest in equity securities and certain alternative investments including hedge funds, managed futures funds, commodities, private equity funds, and REITs, as specified in the Foundation's investment policy. The Foundation may also invest in derivatives and structured products with approval from the Foundation's Board.

While the bond investment provisions vary by trust estate, allowable investments generally include U.S. Treasury obligations and certain of the following based on maturity and rating: U.S. government agency and sponsored agency obligations, bank deposits, repurchase agreements, reverse repurchase agreements, investment agreements, guaranteed investment contracts, money market funds, commercial paper, and tax-exempt bonds.

At June 30, 2023 and 2022, cash, cash equivalent, and investment balances consisted of the following:

	<u>2023</u>	<u>2022</u>
Cash on deposit	\$ 94,876	\$ 102,444
Investments	161,611	150,702
Money market mutual funds	35,660	49,495
Total cash, cash equivalents, and investments	<u>\$ 292,147</u>	<u>\$ 302,641</u>

The following special trust accounts have been established for the LIBOR floating and fixed rate notes issued under the 2021-1, 2021-2, and 2021-3 Trusts:

*Collection Funds* – The Collection Funds are used to (a) account for receipt of borrower payments, (b) receive investment income, (c) pay servicing and administration fees,

## Higher Education Loan Authority of the State of Missouri

### Notes to Financial Statements (continued) (Dollars in Thousands)

#### 3. Cash, Cash Equivalents, and Investments (continued)

consolidation rebate fees, and trustee fees, (d) make principal and interest payments on the bonds, and (e) reinstate the Reserve Funds and the Rebate Funds as required.

*Reserve Funds* – Under the terms of certain bond provisions, minimum amounts are required to be maintained in the Reserve Funds for each related bond issue. The total of these minimum requirements at June 30, 2023 and 2022 were \$3,823 and \$4,998, respectively.

*Department Rebate Funds* – The Department Rebate Funds are used to pay negative special allowance.

The following accounts have been established for the Line of Credit:

*Collection Account* – The Collection Account is used to (a) account for receipt of borrower payments, (b) receive investment income, (c) pay servicing fees, consolidation rebate fees, trustee fees, negative special allowance, (d) pay the lender accrued and unpaid commitment fees, principal and interest, and (e) pay any other obligations which are accrued and due.

*Advance Account* – The Advance Account is used to (a) finance eligible loans or (b) repay advances.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued)

(Dollars in Thousands)

### 3. Cash, Cash Equivalents, and Investments (continued)

As of June 30, 2023 and 2022, cash, cash equivalents, and investments were segregated as follows:

	<u>2023</u>	<u>2022</u>
Special trust accounts:		
Restricted:		
Collection funds	\$ 12,337	\$ 16,918
Reserve funds	3,823	4,998
Department rebate funds	-	2,058
Capitalized interest funds	19,500	25,500
Total special trust accounts	<u>35,660</u>	<u>49,474</u>
Line of Credit:		
Restricted	<u>-</u>	<u>21</u>
Operating fund:		
Unrestricted – undesignated	182,547	172,194
Unrestricted – board and management designated	64,494	69,860
Restricted – due to special trust accounts and clients	9,446	11,092
Total operating fund	<u>256,487</u>	<u>253,146</u>
Total cash, cash equivalents, and investments	<u>\$ 292,147</u>	<u>\$ 302,641</u>

The Company's board has designated \$50,519 for operating reserve and management, \$5,423 to fund the pension, and \$8,552 for the Commerce Loan Reserve.

Money market mutual funds and commercial paper are reported at fair value. Categories of fair value measurements within the fair value hierarchy are established by general accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 3. Cash, Cash Equivalents, and Investments (continued)

As of June 30, 2023, the trading portfolio has the following recurring fair value measurements.

Investments by Fair Value Level	6/30/2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Money market funds	\$ 7,517	\$ 7,517	\$ -	\$ -
Equity mutual fund investments				
Domestic equity mutual funds	83,153	83,153	-	-
International equity mutual funds	24,178	24,178	-	-
Total equity mutual fund investments	\$ 107,331	\$ 107,331	\$ -	\$ -
Fixed income				
Mortgage-backed securities	\$ 8,209	\$ -	\$ 8,209	\$ -
Corporate bonds	19,607	-	19,607	-
U.S. Treasury securities	6,211	6,211	-	-
Federal agencies	351	-	351	-
Asset-backed securities	1,452	-	1,452	-
Taxable municipal bonds	3,086	-	3,086	-
Diversified taxable mutual funds	3,733	3,733	-	-
Tax-exempt revenue bonds	47	47	-	-
Total fixed income	\$ 42,696	\$ 9,991	\$ 32,705	\$ -
Other	\$ 200	\$ -	\$ -	\$ 200
Total investments measured at fair value	<u>\$ 157,744</u>			

In addition, the table above excludes \$3,867 of alternative investments valued at Net Asset Value (NAV).

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued)

(Dollars in Thousands)

### 3. Cash, Cash Equivalents, and Investments (continued)

As of June 30, 2022, the trading portfolio has the following recurring fair value measurements.

Investments by Fair Value Level	6/30/2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Money market funds	\$ 1,968	\$ 1,968	\$ -	\$ -
Equity mutual fund investments				
Domestic equity mutual funds	72,329	72,329	-	-
International equity mutual funds	27,221	27,221	-	-
Total equity mutual fund investments	\$ 99,550	\$ 99,550	\$ -	\$ -
Fixed income				
Mortgage-backed securities	\$ 9,687	\$ -	\$ 9,687	\$ -
Corporate bonds	24,441	-	24,441	-
U.S. Treasury securities	5,740	5,740	-	-
Federal agencies	996	-	996	-
Asset-backed securities	1,048	-	1,048	-
Taxable municipal bonds	3,317	-	3,317	-
Fixed income ETFs	110	-	110	-
Diversified taxable mutual funds	3,291	3,291	-	-
Taxable high yield funds	140	-	140	-
Domestic preferred stock	144	-	144	-
Tax-exempt revenue bonds	46	46	-	-
Total fixed income	\$ 48,960	\$ 9,077	\$ 39,883	\$ -
Other	\$ 224	\$ -	\$ -	\$ 224
Total investments measured at fair value	<u>\$ 150,702</u>			

Debt and equity mutual fund securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Level 3 inputs are classified as unobservable as there are no relevant observable inputs available.

Custodial Credit Risk – Deposits – For a deposit, custodial credit risk is the risk that in the event of a bank failure, deposits may be lost. As it relates to cash deposits, the policy is that deposits

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 3. Cash, Cash Equivalents, and Investments (continued)

should either be insured or collateralized with investments that are permissible under state statutes. At June 30, 2023 and 2022, these cash deposits were fully insured by Federal Deposit Insurance Corporation (FDIC) insurance, secured by a Letter of Credit issued by The Bank of New York Mellon or pledged collateral held at the Federal Reserve in the name of the Company. The Foundation does not have a policy addressing custodial credit risk for deposits. As of June 30, 2023 and 2022, \$2,820 and \$9,678 of the total \$94,876 and \$102,444 in cash is uninsured and uncollateralized, respectively.

**Custodial Credit Risk – Investments** – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, recovery may not be made of the value of its investments or collateral securities that are in the possession of an outside party. There is no policy addressing custodial credit risk for investments. At June 30, 2023 and 2022, \$161,611 and \$150,702 in investments is uninsured and uncollateralized, respectively. In addition, investments in commercial paper were held by the counterparty's trust department, but not in the Company's name.

**Interest Rate Risk and Credit Risk** – Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. Debt securities with longer maturities are likely to be subject to more variability in their fair value as a result of future changes in interest rates. Debt securities are subject to credit risk, which is the chance that an issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments. Certain debt securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. Although there are no formal policies addressing interest rate risk and credit risk, limitations on investment maturities and credit ratings are specified in each of the bond documents. These investment provisions vary by trust estate. At June 30, 2023 and 2022, investments in money market mutual funds held by the trustee had credit ratings of AAA and maturities of less than one year.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued)

(Dollars in Thousands)

### 3. Cash, Cash Equivalents, and Investments (continued)

<b>Investment Type</b>	<b>As of June 30, 2023</b>	<b>Maturity Date</b>
Mortgage-backed securities	\$ 8,209	September 16, 2061
Corporate bonds	19,607	March 15, 2077
U.S. Treasury securities	6,211	August 15, 2049
Federal agencies	351	September 4, 2025
Asset-backed securities	1,452	January 25, 2035
Taxable municipal bonds	3,086	June 1, 2044
Diversified taxable mutual funds	3,733	N/A
Tax-exempt revenue bonds	47	December 1, 2033
Total	<u>\$ 42,696</u>	

<b>Investment Type</b>	<b>As of June 30, 2022</b>	<b>Maturity Date</b>
Mortgage-backed securities	\$ 9,687	September 16, 2061
Corporate bonds	24,441	March 15, 2077
U.S. Treasury securities	5,740	August 15, 2049
Federal agencies	996	September 4, 2025
Asset-backed securities	1,048	January 25, 2035
Taxable municipal bonds	3,317	June 1, 2044
Fixed income ETF's	110	N/A
Diversified taxable mutual funds	3,291	N/A
Taxable high yield funds	140	N/A
Domestic preferred stock	144	N/A
Tax-exempt revenue bonds	46	December 1, 2033
Total	<u>\$ 48,960</u>	

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 3. Cash, Cash Equivalents, and Investments (continued)

Based on the investment ratings, credit risk exposure as of June 30, 2023 and 2022 is as follows:

Rating as of June 30, 2023								
Investment Type		Exchange Traded	AAA	Aa	A	Baa/BBB	Not Rated	Agency
Money market funds	\$ 7,517	\$ -	\$ 7,517	\$ -	\$ -	\$ -	\$ -	\$ -
Equity mutual fund investments								
Domestic equity mutual funds	83,153	83,153	-	-	-	-	-	-
International equity mutual funds	24,178	24,178	-	-	-	-	-	-
Total equity mutual fund investments	\$ 107,331	\$ 107,331	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed income								
Mortgage-backed securities	\$ 8,209	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,209
Corporate bonds	19,607	-	-	1,722	11,616	6,269	-	-
U.S. Treasury securities	6,211	-	-	-	-	-	-	6,211
Taxable municipal bonds	3,086	-	36	2,067	983	-	-	-
Federal agencies	351	-	-	351	-	-	-	-
Asset-backed securities	1,452	-	852	38	562	-	-	-
Diversified taxable mutual funds	3,733	3,733	-	-	-	-	-	-
Tax-exempt revenue bonds	47	-	-	47	-	-	-	-
Total fixed income	\$ 42,696	\$ 3,733	\$ 888	\$ 4,225	\$ 13,161	\$ 6,269	\$ -	\$ 14,420
Alternative investments								
Hedge funds	\$ 3,732	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,732	\$ -
Closely held								
Limited partnerships and pass throughs	\$ 135	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 135	\$ -
Other	\$ 200	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200	\$ -
Total investments	\$ 161,611	\$ 111,064	\$ 8,405	\$ 4,225	\$ 13,161	\$ 6,269	\$ 4,067	\$ 14,420

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued)

(Dollars in Thousands)

### 3. Cash, Cash Equivalents, and Investments (continued)

Rating as of June 30, 2022

Investment Type		Exchange Traded	AAA	Aa	A	Baa/BBB	Not Rated	Agency
Money market funds	\$ 1,968	\$ -	\$ 1,968	\$ -	\$ -	\$ -	\$ -	\$ -
Equity mutual fund investments								
Domestic equity mutual funds	72,329	72,329	-	-	-	-	-	-
International equity mutual funds	27,221	27,221	-	-	-	-	-	-
Total equity mutual fund investments	\$ 99,550	\$ 99,550	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed income								
Mortgage-backed securities	\$ 9,687	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,687
Corporate bonds	24,441	-	-	1,786	15,435	7,220	-	-
U.S. Treasury securities	5,740	-	-	-	-	-	-	5,740
Taxable municipal bonds	3,317	-	43	2,343	931	-	-	-
Fixed income ETFs	110	110	-	-	-	-	-	-
Taxable high yield funds	140	140	-	-	-	-	-	-
Domestic preferred stock	144	144	-	-	-	-	-	-
Federal agencies	996	-	-	996	-	-	-	-
Asset-backed securities	1,048	-	40	-	558	-	-	450
Diversified taxable mutual funds	3,291	3,291	-	-	-	-	-	-
Tax-exempt revenue bonds	46	-	-	46	-	-	-	-
Total fixed income	\$ 48,960	\$ 3,685	\$ 83	\$ 5,171	\$ 16,924	\$ 7,220	\$ -	\$ 15,877
Other	\$ 224	\$ 24	\$ -	\$ -	\$ -	\$ -	\$ 200	\$ -
Total investments	\$150,702	\$ 103,259	\$2,051	\$ 5,171	\$ 16,924	\$ 7,220	\$ 200	\$ 15,877

Concentration of Credit Risk – There is no limit placed on the amount that may be invested in any one issuer. Concentration of credit risk is required to be disclosed for any investment in any one issue that represents 5.00% or more of total investments.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 3. Cash, Cash Equivalents, and Investments (continued)

At June 30, 2023 and 2022, investments in the following exceeded 5.00% of the total \$161,611 and \$150,702 unrestricted investments respectively:

	<b>% of Total Investment 2023</b>
Schwab Fundamental US Large Co Index Fund Institutional Class	8.49%
TIAA-CREF Large Cap Growth Index Fund	10.16%
TIAA-CREF Large Cap Value Index Fund	8.87%
TIAA-CREF Institutional International Equity Fund - I	11.53%
	<b>% of Total Investment 2022</b>
Fidelity Mid Cap Growth Index Fund	5.02%
Schwab Fundamental US Large Co Index Fund Institutional Class	9.05%
TIAA-CREF Large Cap Growth Index Fund	5.66%
TIAA-CREF Large Cap Value Index Fund	9.44%
TIAA-CREF Institutional International Equity Fund - I	13.49%

## Higher Education Loan Authority of the State of Missouri

### Notes to Financial Statements (continued) (Dollars in Thousands)

#### 4. Student Loans Receivable

Upon default, unpaid principal and accrued interest on FFELP student loans receivable are guaranteed by the federal government at the following rates:

<u>Disbursement Date of Loan</u>	<u>Guarantee Percentage</u>
Prior to October 1, 1993	100%
October 1, 1993 – June 30, 2006	98%
On or after July 1, 2006	97%

Unpaid principal and accrued interest on FFELP student loans are also guaranteed at 100% in the event of bankruptcy, death, or discharge.

Supplemental loans receivable are not federally insured. The Company purchased insurance from a third party on a portion of the supplemental loan portfolio, which insures 95% of the unpaid principal and accrued interest upon default.

Credit deteriorated loans have been purchased from third party originators and are not insured. Credit deteriorated loans present a greater risk of loan loss because the loans have already demonstrated major distress as they have already defaulted with other lenders. Purchased credit deteriorated loans do not provide for an allowance for doubtful accounts; rather, the loans are stated at cost and are accreted to the present value of expected future cash flows. Expected future cash flows are estimated as a percentage of the outstanding par balance. For the year ended June 30, 2023 and 2022, accretion income was \$1,314 and \$1,314, respectively, which is included in “Interest on student loans, net” in the financial statements.

MOFELP is an interest free, private student loan program. It is designed to provide borrowing options for Missouri students who may not meet the traditional credit requirements for private loans.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued)

(Dollars in Thousands)

### 4. Student Loans Receivable (continued)

Student loans receivable at June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Guaranteed FFELP loans	\$ 762,353	\$ 991,712
Supplemental loans:		
Third-party insured	399	479
Self-insured	<u>22,293</u>	<u>27,777</u>
Total supplemental loans	<u>22,692</u>	<u>28,256</u>
Credit deteriorated loans	20,112	20,947
MOFELP	26,534	24,831
Allowance for doubtful loans	<u>(10,037)</u>	<u>(12,270)</u>
Total student loans receivable	<u>\$ 821,654</u>	<u>\$ 1,053,476</u>
Weighted-average interest rate – end of year	5.47%	5.12%

The yield on federal student loans receivable is set by federal law and is generally variable based on the one-month LIBOR, or 91-day Treasury bill rates, plus a factor.

These yields are based on the type of loan, the date of loan origination, and, in some cases, the method of financing. Consolidation loans, Stafford loans, and PLUS loans originated after July 1, 2006 have a fixed rate for the borrower. The yield on supplemental loans is a variable rate, based on either the Treasury bill or the prime rate, plus a factor, depending on when the loan originated and the creditworthiness of the borrower and co-signor.

The activity for the allowance for doubtful loans for the years ended June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Beginning balance	\$ 12,270	\$ 12,869
Provision for loan loss	1,765	(376)
Net reinstatement/(write-offs)	<u>(3,998)</u>	<u>(223)</u>
Ending balance	<u>\$ 10,037</u>	<u>\$ 12,270</u>

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued)

(Dollars in Thousands)

### 5. Capital Assets

Capital asset activity for the year ended June 30, 2023, is as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 4,069	\$ –	\$ –	\$ –	\$ 4,069
Construction in progress	373	2,667	(15)	(1,272)	1,753
Depreciable capital assets:					
Buildings and improvements	23,256	–	(746)	1,199	23,709
Furniture and equipment	15,648	783	(357)	73	16,147
Software assets	1,309	5	–	–	1,314
Right to use assets	1,505	–	–	–	1,505
Total depreciable capital assets	41,718	788	(1,103)	1,272	42,675
Less accumulated depreciation and amortization:					
Buildings and improvements	(11,635)	(875)	521	–	(11,989)
Furniture and equipment	(14,394)	(542)	357	–	(14,579)
Software assets	(538)	(266)	–	–	(804)
Right to use assets	(523)	(435)	–	–	(958)
Total accumulated depreciation and amortization	(27,090)	(2,118)	878	–	(28,330)
Net depreciable capital assets	14,628	(1,330)	(225)	1,272	14,345
Total capital assets, net	\$ 19,070	\$ 1,337	\$ (240)	\$ –	\$ 20,167

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued)

(Dollars in Thousands)

### 5. Capital Assets (continued)

Capital asset activity for the year ended June 30, 2022, is as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 4,069	\$ —	\$ —	\$ —	\$ 4,069
Construction in progress	954	639	—	(1,220)	373
Depreciable capital assets:					
Buildings and improvements	23,256	—	—	—	23,256
Furniture and equipment	15,294	157	(272)	469	15,648
Software assets	516	42	—	751	1,309
Right to use assets	682	823	—	—	1,505
Total depreciable capital assets	39,748	1,022	(272)	1,220	41,718
Less accumulated depreciation and amortization:					
Buildings and improvements	(10,775)	(860)	—	—	(11,635)
Furniture and equipment	(14,123)	(543)	272	—	(14,394)
Software assets	(516)	(22)	—	—	(538)
Right to use assets	(122)	(401)	—	—	(523)
Total accumulated depreciation and amortization	(25,536)	(1,826)	272	—	(27,090)
Net depreciable capital assets	14,212	(804)	—	1,220	14,628
Total capital assets, net	\$ 19,235	\$ (165)	\$ —	\$ —	\$ 19,070

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 6. Financings

The following table displays the aggregate changes in bonds payable and note payable from direct borrowing for the year ended June 30, 2023:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Student Loan Revenue Bonds:					
LIBOR Floating and Fixed Rate Notes, taxable, due January 2061 – August 2061, with interest rates ranging from 1.530% – 6.670% at June 30, 2023	\$ 1,034,921	\$ –	\$ (255,406)	\$ 779,515	\$ 79,757
Total Bonds Payable, net	\$ 1,034,921	\$ –	\$ (255,406)	\$ 779,515	\$ 79,757
Note Payable from Direct Borrowing, taxable, due March 2024, with fixed interest rate of 4.240% at June 30, 2023	\$ 9,548	\$ –	\$ (1,251)	\$ 8,297	\$ 8,297
Total	\$ 1,044,469	\$ –	\$ (256,657)	\$ 787,812	\$ 88,054

Reductions in LIBOR floating rate notes consisted of regular payments.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued)

(Dollars in Thousands)

### 6. Financings (continued)

The following table displays the aggregate changes in bonds payable, line of credit payable, and note payable from direct borrowing for the year ended June 30, 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Student Loan Revenue Bonds:					
LIBOR Floating and Fixed Rate Notes, taxable, due January 2061 – August 2061, with interest rates ranging from 1.530% – 3.144% at June 30, 2022	\$ 952,591	\$ 197,500	\$ (115,170)	\$ 1,034,921	\$ 93,031
Total Bonds Payable, net	\$ 952,591	\$ 197,500	\$ (115,170)	\$ 1,034,921	\$ 93,031
Line of Credit Payable, taxable, due May 2023 with variable interest rate of 2.404% at June 30, 2022	\$ 145,819	–	\$ (145,819)	–	–
Note Payable from Direct Borrowing, taxable, due March 2024, with fixed interest rate of 4.240% at June 30, 2022	\$ 10,746	–	\$ (1,198)	\$ 9,548	\$ 1,251
Total	\$ 1,109,156	\$ 197,500	\$ (262,187)	\$ 1,044,469	\$ 94,282

Increase in the LIBOR floating and fixed rate note was due to the issuance of one additional Trust Indenture in fiscal year 2022. This increase was offset by regular repayments. During fiscal year 2022, the Line of Credit was used to facilitate the third bond deal, 2021-3. Subsequently, the Line of Credit has been inactive and expired May 2023.

### LIBOR Floating and Fixed Rate Notes

At June 30, 2023 and 2022, LIBOR floating and fixed rate notes represented 100% of total outstanding bonds payable. The LIBOR floating rate note trusts reprice every month at rates equal to one-month LIBOR plus a spread ranging from 0.57% to 1.52%. There is a fixed rate component which is 1.53%, 1.97%, and 1.58% for bond 2021-1, 2021-2, and 2021-3, respectively. Principal payments are required to be made monthly based on available funds collected less required fees and transfers as stipulated in the bond documents.

Certain bonds are subject to redemption or rate period adjustment at the discretion of the Company under certain conditions as set forth in the bond agreements.

## Higher Education Loan Authority of the State of Missouri

### Notes to Financial Statements (continued) (Dollars in Thousands)

#### 6. Financing (continued)

Bonds of each series are secured by (a) a pledge of proceeds derived from the sale of the bonds, (b) eligible loans, and (c) certain accounts established by the respective bond resolutions, including moneys and securities therein. The bond agreements contain certain covenants that, among other requirements, include maintaining minimum collateral levels. The Company maintains a minimum amount of assets pledged to meet the collateral requirements specified in the various bond resolutions. The total of all minimum requirements for all bond issuances at June 30, 2023 and 2022 was \$847,185 and \$1,100,974, respectively.

The events of default for the Company Trust Indentures include (i) default in punctual interest payment continuing for 5 days; (ii) default in punctual principal payment on the final maturity date; (iii) default in the performance or observance of any other covenants, agreements or conditions of the indenture and continuation of such default for a period of 90 days after written notice by the Trustee to the Company; and (iv) the occurrence of an event of bankruptcy. In the event of default except for (iii) above, the Trustee may at the written direction of the registered owners of at least the majority of the aggregate principal amount of the notes outstanding, take Possession of the Trust Estate and all property of the Trust Estate, conduct the Issuer's business, and collect and receive all charges, income and revenues and after deducting reasonable compensation for its own services will apply the residue as follows: First, to the Department, any department rebate interest amount and monthly rebate fee due; second, to the Trustee, any fees and costs due; third, to each Servicer and the Administrator, any servicing fee and senior administration fee due; fourth, to Class A Noteholders, any unpaid interest due; fifth, to Class A Noteholder, any unpaid principal amounts due; sixth, to Class B Noteholders, any unpaid interest due; seventh, to Class B Noteholders, any unpaid principal amounts due; and eighth, to the Company any remaining balance. If in the event of default, and if the principal of all the outstanding notes have been declared immediately due and payable as under accelerated maturity, then the Trustee may, and, at the written direction of the registered owners of at least the majority of the outstanding amount of the Highest Priority Notes, shall, sell the Trust Estate created under the indenture to the highest bidder. The sale proceeds after deducting expenses will be applied similarly as in Possession of Trust Estate. In the event of default of (i) or (ii) above, the Company upon demand of the Trustee will pay from the Trust Estate, the amount due and payable on such notes for principal and interest along with interest on overdue principal amount, the costs and expenses of collection, and advances of Trustee agents and counsel. If the Company fails to pay, the Trustee may institute a judicial proceeding for the collection of the sums due and unpaid. In the event of default, the Trustee may enforce its rights and the rights of the registered owners of notes by such appropriate judicial proceedings as the Trustee shall deem most effectual.

## Higher Education Loan Authority of the State of Missouri

### Notes to Financial Statements (continued) (Dollars in Thousands)

#### **6. Financings (continued)**

##### **Line of Credit**

On December 19, 2018, the Company entered into a Revolving Credit and Security Agreement with Bank of America for a Line of Credit (LOC) in the amount of \$50,000 and it was increased to \$100,000 on November 6, 2019. The Company used the LOC to purchase FFELP student loans from approved guarantors. On December 2, 2020, a second amendment to the Agreement was made to increase the LOC to \$270,000 to facilitate with the issuance of two additional trust indentures. A third amendment to the Agreement was made on May 19, 2021 to set the available commitment of the LOC to \$175,000. This available commitment was used to pay down outstanding bond principal. A fourth amendment to the Agreement was made on May 18, 2022 to set the available commitment of the LOC to \$100,000. As of June 30, 2023, the Company no longer has a LOC, as it expired on May 16, 2023.

##### **Note Payable from Direct Borrowing**

On March 15, 2019, the Company obtained a Direct Borrowing Note Payable from Commerce Bank in the amount of \$13,280. The Note Payable maturity date is March 15, 2024. The Company pledged the property and buildings from its Chesterfield and Columbia office locations as collateral for the loan. Events of default include payment default; noncompliance with terms, obligations, covenants or conditions contained in the note or any other agreement between lender and the Company; default in favor of third parties; false statements; insolvency; creditor or forfeiture proceedings; and events affecting guarantor. Lender shall not exercise any remedy for default unless the payment default remains unpaid for 10 days or if any other curable default is not cured within 30 days after written notice of default to the Company. If such default is incapable of cure within 30 days, but the Company has commenced curing within the 30 day period and does not complete within 90 days; except the lender shall not be obligated to make any further advances under any line of credit during the time any payment is past due, or during any cure period, unless and until such default has been cured. As remedy in the event of default the lender may declare the entire unpaid principal balance and accrued unpaid interest immediately due, and then the Company will pay that amount. If the Company does not pay, the lender may hire someone else to collect the note. The Company, will pay lender reasonable collection fees including lender's legal expenses and court costs. To the extent permitted by law, the lender has a right of setoff in all the Company's accounts with lender. Upon default the interest rate shall be increased by 3.0 percentage points; however, in no event will the interest rate exceed the maximum interest rate limitations under applicable law.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 6. Financing (continued)

The following is a summary of debt service requirements at June 30, 2023:

Fiscal Years	LIBOR Notes		Note Payable from Direct Borrowing		Total
	Principal	Interest	Principal	Interest	
2024	\$ 79,757	\$ 36,390	\$ 8,297	\$ 253	\$ 124,697
2025	86,040	32,366	-	-	118,406
2026	87,007	28,166	-	-	115,173
2027	86,380	23,957	-	-	110,337
2028	80,695	19,902	-	-	100,597
Total fiscal years 2024-2028	419,879	140,781	8,297	253	569,210
2029 – 2033	199,124	60,967	-	-	260,091
2034 – 2038	75,911	30,792	-	-	106,703
2039 – 2043	28,334	19,009	-	-	47,343
2044 – 2048	11,290	14,524	-	-	25,814
2049 – 2053	4,958	12,571	-	-	17,529
2054 – 2058	2,557	11,570	-	-	14,127
2059	37,462	2,251	-	-	39,713
	<u>\$ 779,515</u>	<u>\$ 292,465</u>	<u>\$ 8,297</u>	<u>\$ 253</u>	<u>\$ 1,080,530</u>

The principal requirements in the table above include the LIBOR floating rate notes and fixed rate notes that are based on scheduled borrower repayments of the student loans in those trusts and note payable from direct borrowing. The interest requirements in the table above were prepared using the applicable variable rates and fixed rates in effect at June 30, 2023. The debt service requirements presented in the table above may differ significantly from the actual amounts of principal and interest paid in future periods.

At June 30, 2023 and 2022, the Company was in compliance with all financial covenants and requirements of our debt agreements and expects to be in compliance for the next twelve months.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### **7. Contracts, Commitments, and Contingencies**

There are two major contracts and various minor contracts to utilize electronic data processing systems and other computer services. The contracts provide for monthly charges based on the number of student loan accounts serviced or system usage. Charges incurred under these contracts totaled \$59,697 and \$28,253 for the years ended June 30, 2023 and 2022, respectively.

The Company leases office space in Washington, DC as lessee for the right to use the office space. In April 2016, the first amendment was executed which extends the terms to January 31, 2026. Under the terms of the agreement, the monthly base will increase by 2% each year. In addition, expense will be adjusted annually for the pro rata share of the landlord's increase in real estate taxes, operating expenses, and utilities. An initial lease liability was recorded in the amount of \$682. As of June 30, 2023 and 2022, the value of the lease liability was \$320 and \$442, respectively. The lease has an interest rate of 1.08%. The value of the right-to-use asset as of June 30, 2023 and 2022 was \$682 and \$682, respectively and accumulated amortization was \$366 and \$244, respectively.

In the ordinary course of business, governmental agency and regulatory examinations, as well as various claims and lawsuits may occur. While the ultimate outcome of litigation and regulatory examinations cannot be predicted with certainty, management, based on its understanding of the facts, does not believe the ultimate resolution of these matters will have a material adverse effect on the financial position or results of operations.

Participation in FFELP and servicing of federal assets necessitates the compliance with federal program requirements and regulations. Management believes to be in substantial compliance with the requirements of these programs and that the effects of any noncompliance would not be material to the financial statements.

### **8. Employee Benefits**

#### **401(k) Plan**

The 401(k) Plan is a single-employer defined contribution plan, the Higher Education Loan Authority of the State of Missouri 401(k) Plan (the 401(k) Plan), for all employees who are at least 21 years of age, work in excess of 500 hours per plan year, and have been employed at least six months. Investment management and recordkeeping is performed by ADP. Employees may elect to defer 1% to 50% of their total compensation into the 401(k) Plan, not to exceed the limits defined in the 401(k) Plan. The Company contributes an amount equal to 100% of the first 8% contributed by the employee. Employer matching funds are invested in the same fund choices made by the employee and are subject to a five-year vesting schedule. Some employer matching funds are offset by accumulated forfeiture credits. The Company may make a non-matching discretionary

## Higher Education Loan Authority of the State of Missouri

### Notes to Financial Statements (continued) (Dollars in Thousands)

#### **8. Employee Benefits (continued)**

contribution to the 401(k) Plan. The amount of this contribution, if any, will be determined by the Company when granted. To be eligible for the contribution, an employee must be credited with at least 1,000 hours of service and be employed on the last day of the 401(k) Plan year. During the fiscal years ended June 30, 2023 and 2022, the Company contributed employer matching funds of \$1,458 and \$1,133 and employees contributed \$1,921 and \$1,410 to the 401(k) Plan, respectively.

#### **Pension Plan**

##### **Plan Description**

The Company offers a noncontributory single-employer defined benefit pension plan, the Higher Education Loan Authority of the State of Missouri Pension Plan (the Pension Plan), which provides retirement, disability, and death benefits to Pension Plan members and beneficiaries.

Pension Plan provisions were established and may be amended by the Company's Board Members. Substantially all employees of the Company are covered by the Pension Plan. Pension benefits are based upon the employee's length of service, employment status, and average compensation. Employees vest in the Pension Plan after five years of service. The Pension Plan is administered by Commerce Trust Company (Administrator).

The Pension Plan is managed by the Company's Board Members which consists of seven members, five of whom are appointed by the Governor of the State, subject to the advice and consent of the State Senate, and two others who are designated by statute – the State Commissioner of Higher Education and a member of the State Coordinating Board for Higher Education. The five members appointed directly by the Governor serve five-year terms. The Board Members have designated the Assistant Director of Administration and the General Counsel as co-plan administrators. No stand-alone plan report is publicly available.

##### **Plan Membership and Benefits Provided**

Retirement benefits for salaried plan members are calculated as 2.5% of the member's highest 3-year average salary times the member's years of service. Benefits for hourly plan members are calculated as 1.5% of the member's highest 3-year average salary times the member's years of service.

Plan members with 5 years of service are eligible to retire at age 65 and members with 15 years of service are eligible to retire at 60. Members hired prior to July 1, 2017 are eligible for an unreduced retirement benefit after age 50 if the combination of their age and years of service equal at least

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 8. Employee Benefits (continued)

80. Members hired after June 30, 2017 are eligible for an unreduced retirement benefit after age 55 if the combination of their age and years of service equal at least 85. Plan members may retire early with a reduced benefit at age 50 with 20 years of service. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable at the member's early retirement date reduced for early commencement and to reflect payment as a 50% joint and survivor annuity.

An annual cost-of-living adjustment is provided to each member receiving a monthly retirement benefit who terminated employment eligible for a retirement benefit or with at least 20 years of service. The annual adjustment is equal to 80% of the increase in the Consumer Price Index, limited to a maximum increase of 5%. The Board Members reserve the right to amend the provisions of the plan. During the year ended June 30, 2017, the plan was amended. The amendment changed future benefit accruals for a lump sum distribution for employees at June 30, 2017 to be based on a 5.0% interest rate and no assumed COLA in place of a 30 Year Treasury interest rate with an assumed COLA. During the year ended June 30, 2021, the plan was amended. The amendment changed future benefit accruals, effective July 1, 2021, to limit the applicable interest rate used for lump sum purposes to no less than 2.32%.

### Employees covered by benefit terms

As of June 30, 2023 and 2022, Pension Plan membership consisted of the following:

<u>Pension Plan Membership</u>	<u>6/30/2023</u>	<u>6/30/2022</u>
Inactive plan members (or beneficiaries) currently receiving benefits	19	18
Inactive plan members entitled to but not yet receiving benefits	33	28
Active plan members	377	333
Total	429	379

### Contributions

Annual contributions approved by the Board are made based on a recommendation of an independent actuary. For the years ended June 30, 2023 and 2022, the Company made pension contributions of approximately \$16,023 and \$2,009, respectively. The 5-year average contribution rate for the plan year beginning 2018 - 2022 is 26.03% of annual payroll. There are no annual maximum contribution rates. Employees do not make contributions to the Pension Plan.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 8. Employee Benefits (continued)

#### Net Pension Liability (Asset)

The net pension liability (asset) was measured as of June 30, 2023. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of July 1, 2022, rolled forward to the Measurement Date using update procedures and the inherent valuation assumptions.

Changes in Net Pension Liability (Asset)	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a)-(b)
Balances at 6/30/2022	\$ 61,854	\$ 50,719	\$ 11,135
Changes for the year:			
Service Cost	2,748	-	2,748
Interest on the total pension liability	4,316	-	4,316
Changes of benefit terms	-	-	-
Differences between expected and actual experience	29	-	29
Changes of Assumptions	(2,965)	-	(2,965)
Contributions – employer	-	16,023	(16,023)
Investment income	-	7,675	(7,675)
Investment expenses	-	(171)	171
Benefit payments	(1,389)	(1,389)	-
Net changes	2,739	22,138	(19,399)
Balances at 6/30/2023	\$ 64,593	\$ 72,857	\$ (8,264)

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 8. Employee Benefits (continued)

The net pension liability (asset) was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of July 1, 2021, rolled forward to the Measurement Date using update procedures and the inherent valuation assumptions.

Changes in Net Pension Liability (Asset)	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a)-(b)
Balances at 6/30/2021	\$ 51,906	\$ 64,614	\$ (12,708)
Changes for the year:			
Service Cost	2,581	-	2,581
Interest on the total pension liability	3,959	-	3,959
Changes of benefit terms	-	-	-
Differences between expected and actual experience	6,615	-	6,615
Changes of Assumptions	1,711	-	1,711
Contributions – employer	-	2,009	(2,009)
Investment income	-	(10,812)	10,812
Investment expenses	-	(174)	174
Benefit payments	(4,918)	(4,918)	-
Net changes	9,948	(13,895)	23,843
Balances at 6/30/2022	\$ 61,854	\$ 50,719	\$ 11,135

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 8. Employee Benefits (continued)

#### Actuarial Assumptions

The total pension liability was determined using the following actuarial assumptions:

	<u>2023</u>	<u>2022</u>
Investment rate of return	6.75 percent	6.75 percent
Discount rate	6.75 percent	6.75 percent
Inflation rate	2.25 percent	2.75 percent
Salary scale	5.0 percent for 2023; 4.5 percent thereafter	6.0, 5.0, 4.5 percent thereafter
Lump sum rate	67 percent	67 percent
Actuarial cost method	Entry Age	Entry Age Normal
Valuation date, rolled forward to measurement date	7/1/2022	7/1/2021
Measurement date	6/30/2023	6/30/2022
Mortality table – annuity purposes	PubG-2010 / MP 2021	PubG-2010 / MP 2021
Mortality table – lump sums	Applicable IRS 2023 Lump sum table / MP 2021	Applicable IRS 2022 Lump sum table / MP 2021

#### Investments and Rate of Return

Pension Plan assets are invested primarily in equity securities, fixed income and cash at the discretion of the Administrator. Those securities are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The investment objective of the Pension Plan is to ensure that assets will be available to meet the Pension Plan's benefit obligations. The long term expected real rate of return on the Pension Plan's assets is based on the anticipated returns for each asset category. At June 30, 2023 the funds were invested 72:23:1:4 equities to fixed income to alternative to cash and at June 30, 2022 the funds were invested 74:23:2:1 equities to fixed income to alternative to cash.

The long term expected rate of return on Pension Plan investments was determined based on 10-year capital market assumptions developed by the Company's investment advisor. The projections for capital markets are provided by the Investment Policy Team, which is comprised of senior investment professionals. The process for setting long-term capital market assumptions involves both quantitative and qualitative analysis. Quantitative analysis considers capital market history back to 1926 (or as far back as history is available, in the case of newer asset classes). Patterns are studied through various economic cycles, evaluating peak-to-peak and trough-to-trough market

## Higher Education Loan Authority of the State of Missouri

### Notes to Financial Statements (continued) (Dollars in Thousands)

#### 8. Employee Benefits (continued)

behavior. By analyzing long-term data, it is better to understand the range of potential future market patterns and avoid some of the traps that can occur with the use of data from shorter time periods. The qualitative analysis involves the evaluation of secular market changes and a forward-looking assessment of possible future market returns. The investment policy team combines this quantitative and qualitative analysis along with a building-blocks approach to forecasting future growth and ultimately arrives at a projection for long-term market returns, risk, and correlations. These capital market assumptions provide the foundation for the strategic asset allocation recommendations.

The target allocations for each major class are summarized below:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Large Cap	39.40%	4.8%
Mid Cap	9.60%	6.1%
Small Cap	4.20%	6.2%
Developed International	16.00%	6.1%
Emerging Market Equity	2.80%	7.5%
Core Domestic Fixed Income	24.00%	1.3%
Real Estate	1.00%	4.0%
Cash	3.00%	-0.1%
	<u>100.00%</u>	

For the years ended June 30, 2023 and 2022, the annual money-weighted rate of return on Pension Plan investments, net of Pension Plan investment expense, was 12.87% and -16.69%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The cash flows used as inputs in the calculation are determined on a monthly basis.

The Pension Plan categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 8. Employee Benefits (continued)

The Pension Plan has a trading portfolio with the following recurring fair value measurements as of June 30, 2023:

Investments by Fair Value Level	6/30/2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Money market funds	\$ 2,870	\$ 2,870	\$ -
Equity mutual fund investments			
Domestic equity mutual funds	37,925	37,925	-
International equity mutual funds	14,701	14,701	-
Total equity mutual fund investments	\$ 52,626	\$ 52,626	\$ -
Fixed income			
Mortgage-backed securities	\$ 1,961	\$ -	\$ 1,961
Corporate bonds	8,875	-	8,875
U.S Treasury securities	3,162	3,162	-
Federal agencies	550		550
Asset backed securities	521		521
Taxable municipal bonds	1,367	-	1,367
Total fixed income	\$ 16,436	\$ 3,162	\$ 13,274
Other exchange traded investments			
REITs	\$ 762	\$ 762	\$ -
Total other exchange traded investments	\$ 762	\$ 762	\$ -
Total investments measured at fair value	<u>\$ 72,694</u>		

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 8. Employee Benefits (continued)

The Pension Plan has a trading portfolio with the following recurring fair value measurements as of June 30, 2022:

Investments by Fair Value Level	6/30/2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Money market funds	\$ 467	\$ 467	\$ -
Equity mutual fund investments			
Domestic equity mutual funds	27,273	27,273	-
International equity mutual funds	10,169	10,169	-
Total equity mutual fund investments	\$ 37,442	\$ 37,442	\$ -
Fixed income			
Mortgage-backed securities	\$ 1,531	\$ -	\$ 1,531
Corporate bonds	7,153	-	7,153
U.S Treasury securities	1,467	1,467	-
Taxable municipal bonds	1,511	-	1,511
Total fixed income	\$ 11,662	\$ 1,467	\$ 10,195
Other exchange traded investments			
REITs	\$ 1,057	\$ 1,057	\$ -
Total other exchange traded investments	\$ 1,057	\$ 1,057	\$ -
Total investments measured at fair value	<u>\$ 50,628</u>		

Debt mutual funds and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 8. Employee Benefits (continued)

**Custodial Credit Risk – Investments** – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Pension Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Pension Plan does not have a policy addressing custodial credit risk for investments. At June 30, 2023 and 2022, the Pension Plan's investments were held by the counterparty's trust department, but not in the Company's or Pension Plan's name.

**Interest Rate Risk and Credit Risk** – There is not a formal policy addressing interest rate risk or credit risk for the Pension Plan. However, the investment advisor diligently addresses and monitors the pension's interest rate risk and credit risk by maintaining a diversified approach to the pension's asset allocation. The interest rate risk and credit risk of the individual mutual funds that make up the pension are monitored and controlled in a discretionary manner by each individual investment vehicle manager. Each fund/manager utilized in the pension has well-defined risk control limits that are established by the manager of the individual fund. For example, each fixed income mutual fund in the pension has established limits on duration (interest rate risk) and credit quality (credit risk), among limits on other risk metrics. Each fund/manager that it utilized in the pension has passed the investment advisor's due diligence process and is continuously monitored. The understanding by the investment advisor of the risk levels associated with each individual mutual fund allow the investment advisor to control and monitor risk at the portfolio level. This ensures that the portfolio is not taking on excessive or unnecessary interest rate risk or credit risk. The investment advisor provides monthly reporting to the Company and conducts at least semi-annual in person pension reviews with the Company's staff. In addition, the investment advisor timely communicates any significant market events and investment manager changes as appropriate.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued)

(Dollars in Thousands)

### 8. Employee Benefits (continued)

Based on the investment ratings, credit risk exposure as of June 30, 2023 and 2022 is as follows:

#### Rating as of June 30, 2023

Investment Type		Exchange Traded	AAA	Aa	A	Baa/BBB	BB	Not Rated	Agency
Money market funds	\$ 2,870	\$ -	\$ 2,870	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equity mutual fund investments									
Domestic equity mutual funds	37,925	37,925	-	-	-	-	-	-	-
International equity mutual funds	14,701	14,701	-	-	-	-	-	-	-
Total equity mutual fund investments	\$ 52,626	\$ 52,626	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed income									
Mortgage-backed securities	\$ 1,961	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,961
Corporate bonds	8,875	-	-	447	6,058	2,303	67	-	-
U.S. Treasury securities	3,162	-	2,523	-	-	-	-	-	639
Federal agencies	550	-	-	550	-	-	-	-	-
Asset backed securities	521	-	521	-	-	-	-	-	-
Taxable municipal bonds	1,367	-	148	917	302	-	-	-	-
Total fixed income	\$ 16,436	\$ -	\$ 3,192	\$ 1,914	\$ 6,360	\$ 2,303	\$ 67	\$ -	\$ 2,600
Other exchange traded funds									
REITs	\$ 762	\$ 762	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total other exchange traded funds	\$ 762	\$ 762	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total investments	\$ 72,694	\$ 53,388	\$ 6,062	\$ 1,914	\$ 6,360	\$ 2,303	\$ 67	\$ -	\$ 2,600

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 8. Employee Benefits (continued)

Rating as of June 30, 2022

Investment Type		Exchange Traded	AAA	Aa	A	Baa/BBB	BB	Not Rated	Agency
Money market funds	\$ 467	\$ -	\$ 467	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equity mutual fund investments									
Domestic equity mutual funds	27,273	27,273	-	-	-	-	-	-	-
International equity mutual funds	10,169	10,169	-	-	-	-	-	-	-
Total equity mutual fund investments	\$ 37,442	\$ 37,442	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed income									
Mortgage-backed securities	\$ 1,531	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,531
Corporate bonds	7,153	-	-	299	4,400	2,420	34	-	-
U.S. Treasury securities	1,467	-	969	-	-	-	-	-	498
Taxable municipal bonds	1,511	-	-	838	673	-	-	-	-
Total fixed income	\$ 11,662	\$ -	\$ 969	\$ 1,137	\$ 5,073	\$ 2,420	\$ 34	\$ -	\$ 2,029
Other exchange traded funds									
REITs	\$ 1,057	\$ 1,057	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total other exchange traded funds	\$ 1,057	\$ 1,057	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total investments	\$ 50,628	\$ 38,499	\$ 1,436	\$ 1,137	\$ 5,073	\$ 2,420	\$ 34	\$ -	\$ 2,029

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 8. Employee Benefits (continued)

Concentration of Credit Risk – No limits are placed in the Pension Plan on the amount that may be invested in any one issuer. Concentration of credit risk is required to be disclosed for any investment in any one issue that represents 5.00% or more of total investments. This concentration of risk is minimal given the diversified nature of the underlying investments of the funds.

At June 30, 2023 and 2022, the Pension Plan investments in the following exceeded 5.00% of the total investments.

	<b>% of Total Investment 2023</b>
Schwab Fundamental US Large Company Index Fund	9.66%
TIAA-CREF Large-Cap Growth Index Fund	12.42%
TIAA-CREF Large-Cap Value Index Fund	9.31%
TIAA-CREF Institutional International Index Fund	16.15%

	<b>% of Total Investment 2022</b>
Fidelity Mid Cap Value Index Fund	5.47%
Schwab Fundamental US Large Company Index Fund	9.55%
Schwab Select Large Cap Growth Fund	6.36%
T Rowe Price Growth Stock Fund	5.06%
TIAA-CREF Large-Cap Growth Index Fund	6.80%
TIAA-CREF Large-Cap Value Index Fund	9.90%
Fidelity Emerging Markets Index Fund	5.05%
TIAA-CREF Institutional International Index Fund	15.04%

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 8. Employee Benefits (continued)

As of June 30, 2023, fixed income investments included: (Duration is in years.)

<b>Investment Type</b>	<b>Fair Value</b>	<b>Duration</b>
Commerce Fixed Income Strategy	\$ 16,436	6.12
Total Fair Value	<u>\$ 16,436</u>	
Duration		<u>6.12</u>

As of June 30, 2022, fixed income investments included: (Duration is in years.)

<b>Investment Type</b>	<b>Fair Value</b>	<b>Duration</b>
Commerce Fixed Income Strategy	\$ 11,662	5.67
Total Fair Value	<u>\$ 11,662</u>	
Duration		<u>5.67</u>

### Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2023 and 2022 was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at 26.03% and 14.73% for June 30, 2023 and 2022, respectively, of covered payroll of current plan members for each year in the future. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued)

*(Dollars in Thousands)*

### 8. Employee Benefits (continued)

The components of the net pension liability (asset) at June 30, 2023 and 2022 were as follows:

	<b>2023</b>	<b>2022</b>
Total Pension Liability	\$ 64,593	\$ 61,854
Plan Fiduciary Net Position	(72,857)	(50,719)
Net Pension (Asset) Liability	<u>\$ (8,264)</u>	<u>\$ 11,135</u>

Plan Fiduciary Net Position as a percentage of the Total Pension Liability	112.79%	82.00%
----------------------------------------------------------------------------	---------	--------

### Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset), calculated using the discount rate of 6.75%, as well as the net pension liability (asset) calculated using a discount rate that is 1-percentage point lower (5.75%) or 1-percentage point higher (7.75%) than the current rate:

	<b>1% Decrease 5.75%</b>	<b>Current Discount Rate 6.75%</b>	<b>1% Increase 7.75%</b>
Net Pension Liability (Asset)			
2023	\$ (997)	\$ (8,264)	\$ (14,329)
2022	\$ 18,190	\$ 11,135	\$ 5,244

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 8. Employee Benefits (continued)

#### Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended June 30, 2023 and 2022, pension expense of \$5,073 and \$5,261, respectively, was recognized. At June 30, 2023, deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

	2023 Deferred Inflows of Resources	2023 Deferred Outflows of Resources
Differences between expected and actual experience	\$ (1,476)	\$ 5,519
Changes of Assumptions	(2,706)	3,911
Net difference between projected and actual earnings on Pension Plan investments	(7,299)	9,522
	<u>\$ (11,481)</u>	<u>\$ 18,952</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be netted and recognized in pension expense as follows:

Year ending June 30:	
2024	\$1,920
2025	1,461
2026	3,507
2027	288
2028	817
Thereafter	(522)

#### Supplemental Pension Plan (SERP)

The Company offers the Supplemental Pension Plan of the Higher Education Loan Authority of the State of Missouri (SERP), a single-employer defined benefit pension plan that provides pension benefits to employees whose benefit is limited by Section 415 of the Internal Revenue Code under the MOHELA Pension Plan. At June 30, 2023 and 2022, SERP membership consisted of 3 participants. At June 30, 2023 and 2022, the Company's liability was \$1,448 and \$1,409, respectively. For the years ended June 30, 2023 and 2022, SERP expense of \$8 and \$6, respectively, was recognized. At June 30, 2023, the Company had \$142 deferred outflows of resources and \$393 deferred inflows of resources related to the SERP. At June 30, 2022, the Company had \$148 deferred outflows of resources and \$503 deferred inflows of resources related to the SERP.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued)

*(Dollars in Thousands)*

### **9. Segment Information**

A segment is an identifiable activity (or grouping of activities) reported as or within an enterprise fund or other stand-alone entity that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities are required by an external party to be accounted for separately. During the fiscal year ended June 30, 2023, the Company had six segments that met the reporting requirements of GASB Statement No. 34, as amended by GASB Statement No. 37. In addition to its segments, the Company presents summary financial information for the Operating Fund, which is used to record administrative transactions and revenue streams related to student loans not associated with bond issues.

The outstanding debt of the Company at June 30, 2023 and 2022 consisted of student loan revenue bonds issued in accordance with three Trust Indentures adopted by the Board of Directors from fiscal year 2021 through fiscal year 2022. The bond documents provide that the bonds are payable exclusively from the eligible loans pledged under the respective resolutions and indentures, amounts deposited in the accounts pledged under the resolutions and indentures, and all other revenues and recoveries of principal from the loans purchased with the bond proceeds. All of the Company's bonds are limited obligations of the Company, which are payable solely from the respective trust estates. As a result, there is no cross-collateralization with other trust estates or the operating funds of the Company. Furthermore, the Company's bonds are not insured or guaranteed by any government agency or instrumentality, including the Company, the State of Missouri, or any political subdivision thereof. As a result of the preceding, it is possible that a trust estate segment can show a negative restricted net position balance as no operating funds of the Company will pay the deficit. In addition to the student loan revenue bonds, on December 19, 2018, the Company entered into a Revolving Credit and Security Agreement with Bank of America for a Line of Credit (LOC). The LOC terminated on May 16, 2023.

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 9. Segment Information (continued)

Summary financial information of the Company's segments and Operating Fund as of June 30, 2023 and 2022 is as follows:

	2023						
	Bond Funds			Line of Credit	Operating Fund	Foundation	Knowledge Finance
	2021-1 Trust Indenture	2021-2 Trust Indenture	2021-3 Trust Indenture				
<b>Condensed Statement of Net Position</b>							
Assets:							
Current assets	\$ 64,183	\$ 86,005	\$ 32,888	\$ —	\$ 157,573	\$ 165,346	\$ 2,196
Long-term assets	250,322	297,195	115,315	—	67,686	22,007	—
Total assets	314,505	383,200	148,203	—	225,259	187,353	2,196
Deferred outflows of resources	—	—	—	—	19,094	—	—
Liabilities:							
Current liabilities	30,921	35,741	14,004	—	69,862	3	—
Long-term liabilities	257,948	320,289	121,521	—	1,645	1,095	—
Interfund payable (receivable)	(532)	(504)	(122)	—	736	68	354
Total liabilities	288,337	355,526	135,403	—	72,243	1,166	354
Deferred inflows of resources	—	—	—	—	12,076	—	—
Net position:							
Net investment in capital assets	—	—	—	—	11,021	—	—
Restricted for debt service	26,168	27,674	12,800	—	8,741	—	—
Unrestricted	—	—	—	—	140,272	186,187	1,842
Total net position	\$ 26,168	\$ 27,674	\$ 12,800	\$ —	\$ 160,034	\$ 186,187	\$ 1,842

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 9. Segment Information (continued)

	2022						
	Bond Funds			Line of Credit	Operating Fund	Foundation	Knowledge Finance
	2021-1 Trust Indenture	2021-2 Trust Indenture	2021-3 Trust Indenture				
							Total
Assets:							
Current assets	\$ 75,607	\$ 99,098	\$ 38,655	\$ (188)	\$ 127,145	\$ 160,991	\$ 2,943
Long-term assets	334,120	391,918	152,814	209	62,545	20,846	—
Total assets	409,727	491,016	191,469	21	189,690	181,837	2,943
Deferred outflows of resources	—	—	—	—	24,837	—	—
Liabilities:							
Current liabilities	37,658	41,912	17,377	33	38,068	8	—
Long-term liabilities	351,588	427,336	162,965	—	21,287	356	—
Interfund payable (receivable)	(588)	(633)	(238)	—	1,413	52	(6)
Total liabilities	388,658	468,615	180,104	33	60,768	416	(6)
Deferred inflows of resources	—	—	—	—	9,555	—	—
Net position:							
Net investment in capital assets	—	—	—	—	8,619	—	—
Restricted for debt service	21,069	22,401	11,365	(12)	10,437	—	—
Unrestricted	—	—	—	—	125,148	181,421	2,949
Total net position	\$ 21,069	\$ 22,401	\$ 11,365	\$ (12)	\$ 144,204	\$ 181,421	\$ 2,949

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 9. Segment Information (continued)

	2023							
	Bond Funds			Line of Credit	Operating Fund	Foundation	Knowledge Finance	Total
	2021-1 Trust Indenture	2021-2 Trust Indenture	2021-3 Trust Indenture					
Condensed Statement of Revenues, Expenses, and Changes in Net Position								
Operating revenues	\$ 22,280	\$ 26,426	\$ 10,140	\$ —	\$ 284,210	\$ 15,050	\$ 468	\$ 358,574
Operating expenses	17,181	21,153	8,705	349	261,979	10,284	1,575	321,226
Operating income (loss)	5,099	5,273	1,435	(349)	22,231	4,766	(1,107)	37,348
Non-operating expenses	—	—	—	—	(6,040)	—	—	(6,040)
Income (loss) before transfers	5,099	5,273	1,435	(349)	16,191	4,766	(1,107)	31,308
Interfund transfers	—	—	—	361	(361)	—	—	—
Change in net position	5,099	5,273	1,435	12	15,830	4,766	(1,107)	31,308
Net position, beginning of year	21,069	22,401	11,365	(12)	144,204	181,421	2,949	383,397
Net position, end of year	\$ 26,168	\$ 27,674	\$ 12,800	\$ —	\$ 160,034	\$ 186,187	\$ 1,842	\$ 414,705

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 9. Segment Information (continued)

	2022							
	Bond Funds							
	2021-1 Trust Indenture	2021-2 Trust Indenture	2021-3 Trust Indenture	Line of Credit	Operating Fund	Foundation	Knowledge Finance	Total
Condensed Statement of Revenues, Expenses, and Changes in Net Position								
Operating revenues	\$ 13,917	\$ 15,267	\$ 4,275	\$ 1,876	\$ 88,974	\$ (9,909)	\$ 255	\$ 114,655
Operating expenses	11,031	12,830	6,446	185	100,120	9,590	245	140,447
Operating income (loss)	2,886	2,437	(2,171)	1,691	(11,146)	(19,499)	10	(25,792)
Non-operating expenses	—	—	—	—	(6,000)	—	—	(6,000)
Income (loss) before transfers	2,886	2,437	(2,171)	1,691	(17,146)	(19,499)	10	(31,792)
Interfund transfers	—	24	13,536	(42,699)	29,139	—	—	—
Change in net position	2,886	2,461	11,365	(41,008)	11,993	(19,499)	10	(31,792)
Net position, beginning of year	18,183	19,940	—	40,996	132,211	200,920	2,939	415,189
Net position, end of year	\$ 21,069	\$ 22,401	\$ 11,365	\$ (12)	\$ 144,204	\$ 181,421	\$ 2,949	\$ 383,397

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 9. Segment Information (continued)

	2023						
	Bond Funds			Line of Credit	Operating Fund	Foundation	Knowledge Finance
	2021-1 Trust Indenture	2021-2 Trust Indenture	2021-3 Trust Indenture				
<b>Condensed Statement of Cash Flows</b>							
Net cash flows from operating activities	\$ 106,438	\$ 120,084	\$ 47,873	\$ (22)	\$ 10,617	\$ (10,863)	\$ (671)
Net cash flows from non-capital financing activities	(111,684)	(127,779)	(50,761)	—	(7,679)	—	—
Net cash flows from capital and related financing activities	—	—	—	—	(3,061)	—	—
Net cash flows from investing activities	567	1,024	424	1	84	4,005	—
Net decrease in cash and cash equivalents	(4,679)	(6,671)	(2,464)	(21)	(39)	(6,858)	(671)
Cash and cash equivalents, beginning of year	12,728	25,735	11,011	21	89,689	9,928	2,827
Cash and cash equivalents, end of year	\$ 8,049	\$ 19,064	\$ 8,547	\$ —	\$ 89,650	\$ 3,070	\$ 2,156

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 9. Segment Information (continued)

	2022							
	Bond Funds			Line of Credit	Operating Fund	Foundation	Knowledge Finance	Total
2021-1 Trust Indenture	2021-2 Trust Indenture	2021-3 Trust Indenture						
Condensed Statement of Cash Flows								
Net cash flows from operating activities	\$ 49,160	\$ 59,915	\$ (165,504)	\$ 145,195	\$ 22,681	\$ (10,464)	\$ (201)	\$ 100,782
Net cash flows from non-capital financing activities	(48,360)	(60,038)	176,505	(146,227)	(27,662)	20,023	—	(85,759)
Net cash flows from capital and related financing activities	—	—	—	—	(824)	—	—	(824)
Net cash flows from investing activities	14	27	10	—	(102)	(6,098)	—	(6,149)
Net increase (decrease) in cash and cash equivalents	814	(96)	11,011	(1,032)	(5,907)	3,461	(201)	8,050
Cash and cash equivalents, beginning of year	11,914	25,831	—	1,053	95,596	6,467	3,028	143,889
Cash and cash equivalents, end of year	\$ 12,728	\$ 25,735	\$ 11,011	\$ 21	\$ 89,689	\$ 9,928	\$ 2,827	\$ 151,939

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 10. Blended Component Unit

The Foundation is accounted for as a blended component unit of the Company as it approves the appointment of the Foundation's Board of Directors, has the ability to impose its will on the Foundation, and it is a not-for profit corporation in which the Company is the sole corporate member.

### Statements of Net Position

<b><u>Foundation</u></b>	<b><u>As of June 30, 2023</u></b>	<b><u>As of June 30, 2022</u></b>
Assets		
Current assets		
Cash and cash equivalents:		
Unrestricted	\$ 3,070	\$ 9,928
Investments - unrestricted	159,326	148,539
Student loans receivable	2,678	2,269
Miscellaneous receivables	272	255
Due from the Higher Education Loan Authority of the State of Missouri	-	-
Total current assets	<u>165,346</u>	<u>160,991</u>
Long-term assets		
Student loans receivable (less allowance for doubtful loans \$1,849 and \$1,716)	<u>22,007</u>	<u>20,846</u>
Total long-term assets	<u>22,007</u>	<u>20,846</u>
Total assets	<u>\$ 187,353</u>	<u>\$ 181,837</u>
Liabilities and net position		
Current liabilities		
Other liabilities	\$ 3	\$ 8
Due to the Higher Education Loan Authority of the State of Missouri	<u>68</u>	<u>52</u>
Total current liabilities	<u>71</u>	<u>60</u>
Long-term liabilities		
MyMo Class of 2025 Promise Program	450	356
MyMo Class of 2026 Promise Program	<u>645</u>	<u>-</u>
Total long-term liabilities	<u>1,095</u>	<u>356</u>
Total liabilities	<u>\$ 1,166</u>	<u>\$ 416</u>
Net position:		
Unrestricted	<u>186,187</u>	<u>181,421</u>
Total net position	<u>\$ 186,187</u>	<u>\$ 181,421</u>

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued)

(Dollars in Thousands)

### 10. Blended Component Unit (continued)

#### Statements of Revenues, Expenses and Changes in Net Position

<u>Foundation</u>	<u>For the Year Ended June 30, 2023</u>	<u>For the Year Ended June 30, 2022</u>
Operating revenues, net:		
Investment Income	\$ 3,218	\$ 2,965
Realized and unrealized gain (loss) on investments	11,832	(31,884)
Contributions from the Higher Education Loan Authority of the State of Missouri	-	19,010
Total operating revenues, net	<u>15,050</u>	<u>(9,909)</u>
Operating expenses:		
Provision for loan losses	<u>787</u>	<u>1,123</u>
Total student loan-related expenses	<u>787</u>	<u>1,123</u>
Professional fees	6	35
Scholarships	6,417	4,561
Grants	622	1,101
Other operating expenses	<u>2,452</u>	<u>2,770</u>
Total general and administrative expenses	<u>9,497</u>	<u>8,467</u>
Total operating expenses	<u>10,284</u>	<u>9,590</u>
Operating income (loss)	<u>4,766</u>	<u>(19,499)</u>
Change in net position	4,766	(19,499)
Net position, beginning of year	<u>181,421</u>	<u>200,920</u>
Net position, end of year	<u>\$ 186,187</u>	<u>\$ 181,421</u>

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 10. Blended Component Unit (continued)

#### Statements of Cash Flows

<u>Foundation</u>	<u>For the Year Ended June 30, 2023</u>	<u>For the Year Ended June 30, 2022</u>
Cash flows from operating activities:		
Disbursement of new student loans	\$ (4,729)	\$ (4,719)
Student loan repayments	2,372	2,079
Payments to vendors	(7,576)	(7,067)
Cash paid for servicing fees	(930)	(757)
Net cash used in operating activities	<u>(10,863)</u>	<u>(10,464)</u>
Cash flows from noncapital financing activities:		
Contributions from the Higher Education Loan Authority of the State of Missouri	-	20,023
Net cash provided by noncapital financing activities	<u>-</u>	<u>20,023</u>
Cash flows from investing activities:		
Purchase of investments, net of sales	781	(9,056)
Interest received on cash, cash equivalents and investments	3,224	2,958
Net cash provided by (used in) investing activities	<u>4,005</u>	<u>(6,098)</u>
Change in cash and cash equivalents	(6,858)	3,461
Cash and cash equivalents, beginning of year	9,928	6,467
Cash and cash equivalents, end of year	<u>\$ 3,070</u>	<u>\$ 9,928</u>

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 10. Blended Component Unit (continued)

#### Statements of Cash Flows

<u>Foundation</u>	<u>For the Year Ended June 30, 2023</u>	<u>For the Year Ended June 30, 2022</u>
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	\$ 4,766	\$ (19,499)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Contributions from the Higher Education Loan Authority of the State of Missouri	-	(19,010)
Realized and unrealized loss (gain) on investments	(11,833)	31,884
Investment income	(2,976)	(2,695)
Provision for loan losses	788	1,123
Change in assets and liabilities:		
(Increase) in student loans receivable	(2,358)	(2,641)
Increase in due to the Higher Education Loan Authority of the State of Missouri	17	15
Increase in other liabilities	733	359
Total adjustments	(15,629)	9,035
Net cash used in operating activities	<u>\$ (10,863)</u>	<u>\$ (10,464)</u>
Noncash investing, capital, and financing activities:		
Changes in investments and outstanding liabilities related to capital assets	<u>\$ 17,993</u>	<u>\$ (41,511)</u>

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued)

(Dollars in Thousands)

### 10. Blended Component Unit (continued)

Knowledge Finance is accounted for as a blended component unit of the Company as it approves the appointment of the Board of Directors, has the ability to impose its will on Knowledge Finance, and it is a not-for profit corporation in which the Company is the sole corporate member.

### Statement of Net Position

<b><u>Knowledge Finance</u></b>	<b><u>As of June 30, 2023</u></b>	<b><u>As of June 30, 2022</u></b>
Assets		
Current assets		
Cash	\$ 2,156	\$ 2,827
Due from the Higher Education Loan Authority of the State of Missouri	-	6
Miscellaneous receivables	40	116
Total current assets	<u>2,196</u>	<u>2,949</u>
Total assets	<u>\$ 2,196</u>	<u>\$ 2,949</u>
Liabilities and net position		
Current liabilities		
Due to the Higher Education Loan Authority of the State of Missouri	\$ 354	\$ -
Total current liabilities	<u>354</u>	<u>-</u>
Total liabilities	<u>\$ 354</u>	<u>\$ -</u>
Net position:		
Unrestricted	1,842	2,949
Total net position	<u>\$ 1,842</u>	<u>\$ 2,949</u>

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued)

(Dollars in Thousands)

### 10. Blended Component Unit (continued)

#### Statement of Revenues, Expenses and Changes in Net Position

<u>Knowledge Finance</u>	<u>For the Year Ended June 30, 2023</u>	<u>For the Year Ended June 30, 2022</u>
Operating revenues, net:		
Contributions from the Higher Education Loan Authority of the State of Missouri	\$ -	\$ -
Servicing revenue	468	255
Total operating revenues, net	<u>468</u>	<u>255</u>
Operating expenses:		
Computer services and management fees	1,572	245
Attorney fees	3	-
Total operating expenses	<u>1,575</u>	<u>245</u>
Operating (loss) income	<u>(1,107)</u>	<u>10</u>
Change in net position	(1,107)	10
Net position, beginning of year	2,949	2,939
Net position, end of year	<u>\$ 1,842</u>	<u>\$ 2,949</u>

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued)

*(Dollars in Thousands)*

### 10. Blended Component Unit (continued)

#### Statements of Cash Flows

<u>Knowledge Finance</u>	<u>For the Year Ended June 30, 2023</u>	<u>For the Year Ended June 30, 2022</u>
Cash flows from operating activities:		
Cash paid for servicing fees	\$ (671)	\$ (201)
Net cash used in operating activities	(671)	(201)
Cash flows from noncapital financing activities:		
Contributions from the Higher Education Loan Authority of the State of Missouri	-	-
Net cash provided by noncapital financing activities	-	-
Cash flows from investing activities:		
Net cash used in investing activities	-	-
Change in cash and cash equivalents	(671)	(201)
Cash and cash equivalents, beginning of year	2,827	3,028
Cash and cash equivalents, end of year	<u>\$ 2,156</u>	<u>\$ 2,827</u>

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued)

*(Dollars in Thousands)*

### 10. Blended Component Unit (continued)

#### Statements of Cash Flows

<u>Knowledge Finance</u>	<u>For the Year Ended June 30, 2023</u>	<u>For the Year Ended June 30, 2022</u>
Reconciliation of operating income to net cash used in operating activities:		
Operating (loss) income	\$ (1,107)	\$ 10
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets and liabilities:		
Decrease (Increase) in miscellaneous receivables and prepaid expenses	76	(93)
(Increase) in due from Higher Education Loan Authority of the State of Missouri	-	(6)
Increase (Decrease) in due to (from) the Higher Education Loan Authority of the State of Missouri	360	(112)
Total adjustments	436	(211)
Net cash used in operating activities	\$ (671)	\$ (201)

# Higher Education Loan Authority of the State of Missouri

## Notes to Financial Statements (continued) (Dollars in Thousands)

### 11. Future Accounting Pronouncements

In June 2022, the GASB issued Statement No. 100, Accounting Changes and Error Corrections – an amendment of GASB 62. The purpose of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The Company is required to implement this Statement for the period ending June 30, 2024.

In June 2022, the GASB issued Statement No. 101, Compensated Absences. The purpose of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The Company is required to implement this Statement for the period ending June 30, 2024.

The Company is evaluating the impact of the adoption of these pronouncements.

### 12. Subsequent Events

In July 2023, the Company transitioned from one-month LIBOR to one-month CME Term SOFR plus a tenor spread adjustment of 0.11448%. This rate will be used for the SAP index and student loan revenue bonds.

# Higher Education Loan Authority of the State of Missouri

## Required Supplementary Information Schedule of Changes in the Net Pension Liability (Asset) and Related Ratios (Unaudited)/(Dollars in Thousands)

As of and for the Years Ended June 30, 2023, 2022, 2021, 2020, 2019, 2018, 2017, 2016, 2015 and 2014

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability										
Service cost	\$ 2,748	\$ 2,581	\$ 2,509	\$ 2,731	\$ 2,707	\$ 2,616	\$ 3,900	\$ 3,334	\$ 3,306	\$ 3,175
Interest on the Total Pension Liability	4,316	3,959	3,573	3,547	3,191	3,027	3,015	2,526	2,234	2,134
Changes of Benefit Terms	-	-	(150)	-	-	-	(4,346)	-	-	-
Differences between expected and actual experience	29	6,615	(1,399)	241	(688)	1,480	1,273	(666)	(989)	473
Changes of Assumptions	(2,965)	1,711	499	2,174	1,880	(515)	215	2,061	-	-
Benefit payments	(1,389)	(4,918)	(9,886)	(3,040)	(2,493)	(1,675)	(3,960)	(1,064)	(2,957)	(3,705)
Net change in total pension liability	2,739	9,948	(4,854)	5,653	4,597	4,933	97	6,191	1,594	2,077
Total pension liability - beginning	61,854	51,906	56,760	51,107	46,510	41,577	41,480	35,289	33,695	31,618
Total pension liability - ending (a)	64,593	61,854	51,906	56,760	51,107	46,510	41,577	41,480	35,289	33,695
Plan fiduciary net position										
Contributions - employer	16,023	2,009	6,676	3,176	2,894	3,166	4,496	3,221	2,980	3,262
Investment income	7,675	(10,812)	14,730	1,778	3,368	3,440	3,647	456	1,296	4,573
Investment expenses	(171)	(174)	(168)	(156)	(151)	(175)	(166)	(144)	-	-
Benefit payments	(1,389)	(4,918)	(9,886)	(3,040)	(2,493)	(1,675)	(3,960)	(1,064)	(2,957)	(3,705)
Administrative expense	-	-	-	-	-	-	-	(1)	(153)	(138)
Net change in plan fiduciary net position	22,138	(13,895)	11,352	1,758	3,618	4,756	4,017	2,468	1,166	3,992
Plan fiduciary net position-beginning	50,719	64,614	53,262	51,504	47,886	43,130	39,113	36,645	35,479	31,487
Plan fiduciary net position-ending (b)	\$ 72,857	\$ 50,719	\$ 64,614	\$ 53,262	\$ 51,504	\$ 47,886	\$ 43,130	\$ 39,113	\$ 36,645	\$ 35,479
Net pension liability (asset) - ending (a) - (b)	(8,264)	11,135	(12,708)	3,498	(397)	(1,376)	(1,553)	2,367	(1,356)	(1,784)
Plan fiduciary net position as a percentage of the total pension liability	112.79%	82.00%	124.48%	93.84%	100.78%	102.96%	103.74%	94.29%	103.84%	105.29%
Covered payroll beginning of year	\$ 23,530	\$ 22,619	\$ 21,760	\$ 26,710	\$ 27,278	\$ 27,282	\$ 26,641	\$ 21,490	\$ 19,996	\$ 20,304
Net pension liability (asset) as a percentage of covered-employee payroll	-35.12%	49.23%	-58.40%	13.10%	-1.45%	-5.04%	-5.83%	11.02%	-6.78%	-8.79%

Information provided for years available

Actuarial valuation date is as of the beginning of each fiscal period presented herein.

# Higher Education Loan Authority of the State of Missouri

## Required Supplementary Information Schedule of Contributions (Unaudited)/(Dollars in Thousands)

Last 10 Fiscal Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 4,888	\$ 2,009	\$ 3,178	\$ 3,176	\$ 2,894	\$ 3,166	\$ 4,496	\$ 3,221	\$ 2,980	\$ 3,262
Actual contribution recognized during the year	16,023	2,009	6,676	3,176	2,894	3,166	4,496	3,221	2,980	3,262
Contribution deficiency (excess)	(11,135)	-	(3,498)	-	-	-	-	-	-	-
Covered payroll beginning of year	\$ 23,530	\$ 22,619	\$ 21,760	\$ 26,710	\$ 27,278	\$ 27,282	\$ 26,641	\$ 21,490	\$ 19,996	\$ 20,304
Contributions as a % of covered – employee payroll	68.10%	8.88%	30.68%	11.89%	10.61%	11.60%	16.88%	14.99%	14.90%	16.07%
Methods and Assumptions for Actuarially Determined Contribution										
Salary Scale	6.0%, 5.0%, 4.5% thereafter	4.50%	4.50%	4.50%	4.50%	4.50%	5.00%	5.00%	5.00%	5.00%
Investment Rate of Return	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
Amortization Period	6.9	6.5	6.9	6.9	6.9	6.8	8.8	10.0	9.9	10.1
Inflation Rate	2.75%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%	2.50%	2.50%	2.50%
Mortality Table	PubG -2010/ MP 2021	PubG - 2010/ MP 2020	PubG- 2010/ MP 2018	RP 2014 Blue Collar MP 2017	RP 2014 Blue Collar MP 2017	RP 2014 Blue Collar MP 2016	RP 2014 Blue Collar MP 2015	IRS 2015	IRS 2014	IRS 2013
Actuarial Cost Method	Aggregate									
Asset Valuation Method	Actuarial value as used for funding valuation purposes									
Amortization Method	Level Percent of Payroll									
Amortization Period	Average future service period of current employees									

Actuarial valuation date is as of the beginning of each fiscal period presented herein.

Higher Education Loan Authority of the State of Missouri

Required Supplementary Information  
Schedule of Investment Returns  
*(Unaudited)*

Last 10 Fiscal Years

<b>Fiscal Year Ended</b>	<b>Annual Money-Weighted Rate of Return</b>
2023	12.87%
2022	-16.69%
2021	27.94%
2020	3.44%
2019	6.95%
2018	7.77%
2017	9.01%
2016	0.82%
2015	3.45%
2014	14.64%



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working world**

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## **Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Members of  
The Higher Education Loan Authority of the State of Missouri

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the business-type activities and fiduciary activities of the Higher Education Loan Authority of the State of Missouri (“the Company”), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Company’s basic financial statements (collectively referred to as the “financial statements”), and have issued our report thereon dated September 19, 2023.

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Company’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Company’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Company’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances



of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ernst & Young LLP*

September 19, 2023



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## Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Members of  
The Higher Education Loan Authority of the State of Missouri

### **Report of Independent Auditors on Compliance for the Major Federal Program**

#### ***Opinion on the Major Federal Program***

We have audited the Higher Education Loan Authority of the State of Missouri's (the Company's) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Company's major federal program for the year ended June 30, 2023. The Company's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Company complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2023.

#### ***Basis for Opinion on the Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Company's compliance with the compliance requirements referred to above.



### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Company's federal program.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Company's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Company's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Company's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Company's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.



## Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Ernst + Young LLP*

September 19, 2023

# Higher Education Loan Authority of the State of Missouri

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2023

<b>Federal Grantor/Program Title</b>	<b>Federal Assistance Listing Number</b>	<b>Federal Expenditures</b>
U.S. Department of Education – Federal Family Education Loans (Lenders) —	84.032L	
Outstanding loan balance at the beginning of the year		\$ 991,712,000
New loans		184,722
Interest on student loans		<u>1,107,123</u>
Total expenditures of federal awards		<u><u>\$ 993,003,845</u></u>

*See accompanying notes to schedule of expenditures of federal awards.*

# Higher Education Loan Authority of the State of Missouri

## Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2023

### 1. Significant Accounting Policies

The Higher Education Loan Authority of the State of Missouri (the Company) maintains its schedule of expenditures of federal awards (the Schedule) on an accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Accordingly, some amounts presented in this Schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

### 2. Indirect Costs

The Company did not use the 10% de minimis cost rate allowed by the Uniform Guidance.

### 3. Loan/Loan Guarantee Outstanding Balances

The Schedule includes loans outstanding at the beginning of the year of \$991,712,000, for which the federal government imposes continuing compliance requirements related to the Federal Family Education Loan (FFEL) program. In addition, the Schedule includes \$184,722 of new loans purchased, and \$1,107,123 for interest subsidy earned by the Company. These amounts are considered federal awards expended for the year ended June 30, 2023.

The balance of FFEL loans outstanding at June 30, 2023 is \$762,352,922.

\* \* \* \* \*

# Higher Education Loan Authority of the State of Missouri

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

### Section I – Summary of Auditor’s Results

#### Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ yes        X   no

Significant deficiency(ies) identified?

\_\_\_\_\_ yes        X   none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ yes        X   no

#### Federal Awards

Internal control over major federal program:

Material weakness(es) identified?

\_\_\_\_\_ yes        X   no

Significant deficiency(ies) identified?

\_\_\_\_\_ yes        X   none reported

Type of auditor’s report issued on compliance for major federal program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

\_\_\_\_\_ yes        X   no

Identification of major federal program:

#### Assistance Listing Number

#### Name of Federal Program or Cluster

84.032L

Federal Family Education Loans (Lenders)

Dollar threshold used to distinguish between Type A and Type B programs – \$3,000,000

Auditee qualified as low-risk auditee?

  X   yes      \_\_\_\_\_ no

Higher Education Loan Authority of the State of Missouri

Schedule of Findings and Questioned Costs (continued)

For the Year Ended June 30, 2023

**Section II – Financial Statement Findings**

No matters are reportable.

**Section III – Federal Award Findings and Questioned Costs**

No matters are reportable.